

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

A number of variables play important role in the success and overall development of a business entity. However, among these variables money has been identified as the single most influencing variables. The expansion of any kind of business is impossible if there is insufficient fund. The firms need finance for various purposes. Some need capital at initial stage as seed money to establish their business, other need it to run their current activities smoothly while yet another groups may need it for diversification and to achieve ambitious expansion plan.

The nature and volume of capital needed in a productive process are directly related to the nature and volume of number of components. These components include use of land, capital, equipment, labour, building up of stocks and miscellaneous expenses.

There are two sources of finance; internal and external, of fulfilling financial needs of a firm. Internal sources of financing mainly consist of retained profits of the enterprises and the provision for depreciation. This self financing was the only method of financing an enterprise in a rudimentary stage of the economy where every economic unit it self sufficient. On the other hand external sources are debt, preferred stock and common stock. Among these external sources, common stock is the reliable sources. As it is a long-term fund and never matures.

Based on the economic functions, the capital market can be categorized into primary and secondary market. Primary market indicates the market for the new issue of securities whereas secondary market refers to the market where existing and already outstanding securities are being traded.

Initial public offering (IPO) is a part of primary market mechanism. When an institution raises capital from public through assurance of its securities for the first time, then its issue to the public is termed as initial public offering. The securities offer can be ordinary share, debenture, preference share and mutual fund schemes. IPO is important and often the only major source of obtaining large sum of fixed rate long terms funds.

IPO being an important component of capital market is bound to be influence by the size and level of development of capital market. In this context, Nepal does not have long history of capital market development. Even though the flotation of ordinary share by Biratnagar Jute Mill and Nepal Bank Ltd in 1937 A.D.: introduction of capital Act in 1964 and the first assurance of government bond in 1964 were some positive indication of capital market development in Nepal but the actual process started with the establishment of Security Exchange Centre (SEC) in 1976 A.D. However, the process got actual impetus only when the government adopted the policy of economic liberalization and privatization during 1990's. During the same period SEC was divided into institution namely Security Board of Nepal (SEBO/N) and Nepal Stock Exchange (NEPSE) ltd.

Financial market can be defined as a mechanism bringing together buyers and seller of financial assets in order to facilitate trading. Financial market is of two types: capital market and money market. Capital market is the market for long term loans and equity capital. It includes the stock market, the bond market and the primary market. The money market is an important ingredient of the financial market. The market for short term securities is known as the money market. It deals with those debt instruments and other financial instruments that are issue with maturity of one year or less. In the financial instruments, money market provides very significant role. The money market is designed for the making of short-term loans. It is an institution through which individuals and other institution with temporary surplus of funds meet the needs of borrowers who have temporary funds shortages. Thus, money market enables economic units to manage their liquidity position.

A security or loan maturing within one year or less is considered to be a money market instruments. Treasury bill, banker's acceptance, commercial paper, interbank loan, negotiable certificate of deposit etc are the examples of money market instruments. Interbank rate is the rate of interest charged on short-term loans made between banks. Banks borrow and lend money in the interbank market in order to manage liquidity and meet the requirements placed on them. The interest rate charged depends on the availability of money in the market, on prevailing rates and on the specific terms of the contract, such as term length. Interbank loans between commercial banks are also known as overnight loans. Interbank loans arise when a bank holds reserves in excess of those that the Central Bank Act requires that bank to hold to meet its reserve requirement. Interbank loans are thus simply bank reserve loaned from banks with excess reserves to bank with insufficient reserves. The interest rate on these one day bank loans is called the interbank rate. Bankers obtain or sell interbank loan simply by calling other bankers.

## **1.2 Focus of the Study**

Capital market, though its ability to mobilize resources from fund surplus group to fund deficit group does play an important role in economic development of a country. In this context, IPO, an important capital market mechanism enables not only business entities but also government at occasion to raise long term fund at convenient terms. At one hand through IPO issuing party gain access to needed funds while on the other hand, it provides investment opportunities to the investor or general public. This ensures that there exists equilibrium between fund surplus group and fund deficit group. In Nepal SEBON is the authorized institution which provides approval to the securities being offered through IPO where as NEPSE is the only stock exchange where such issues should get listed for legal trading. Moreover, it can be expected that the purposed research will able to address present phenomenon of IPO practices in Nepal and a little about the present situation of interbank rate. Therefore the study has focused on increasing public interest on IPOs, analysis of subscription pattern and its impact on interbank rate.

### **1.3 Statement of the Problem**

Although the foundation of stock market development was laid back in 1976 AD with the establishment of SEC, the Nepalese stock market is still in its infant stage. Its contribution on GDP is still nominal. Nepalese stock market has very limited offerings, that too regulation by government to large extent.

The growth of the primary market is encouraging in recent years. The commercial banks, development banks, finance companies, insurance company hydropower and other sector have been able to raise capital through the flotation of common stock to the public with very good response. Most of the company's issues have been oversubscription. Still more than one third of Nepalese people are under the line of literacy. And among the literate ones as well maximum do know nothing about the money market instruments and its practice. They do know little about IPO mean but do not know how to invest in it. Due to lack of public awareness, political instability, lack of investment opportunities are the specific reason for oversubscription of IPOs which subsequently impact in interbank rate.

### **1.4 Objectives of Study**

The major objective of the study is to investigate the increasing interest of people in IPOs and its impact in interbank rate. To fulfill this main objective following sub objectives have been formulated.

- To analyze the relation of IPOs with interbank rate.
- To examine the pattern of public response to different sector.
- To find out people consciousness about IPOs and interbank loan rate.
- To find out expectation of people behind investment in IPOs and their preference for investment in IPOs.
- To suggest for the improvement based on findings of the study.

### **1.5 Significance of the Study**

Likewise, other mechanism of money market interbank loan and their practices are very much limited in Nepal. Moreover, there is apparent dearth of reach work covering different aspect of IPOs, Interbank loan in Nepal. Under this perspective, this study is

expected to provide some insight into different aspects regarding IPOs and Interbank loan. The included analyses are expected to provide rational grounds for prospective investors enabling them to make better investment decisions especially during IPOs. It will also be helpful to know the public response to IPOs of different industries. It is beneficial to know about money supply and condition of market. Furthermore, it will open new avenues for future research.

### **1.6 Limitation of the Study**

As a master degree thesis this study certainty has limitation. This study is limited by followings:

- The study is based on secondary data articles publications and journals related to the study. Hence the reliability of thee study depends upon the accuracy of published data.
- The findings of this study are based on historic data and the present scenario may be changed.
- The study covers only five fiscal years.
- This study is done from student's limited resources.
- The samples have been drawn at random for convenience, so there may exist some sampling error and the sample size may not be sufficient to generalize the findings.

### **1.7 Organization of the Study**

The study organized into five chapters, each devoted to some aspect of the study increasing interest of people in IPOs and its impact in interbank rate. The fields of these chapters are as follows:

#### **Chapter- I**

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

## **Chapter -II**

This chapter is mainly focused with the review of available literature in the field of the studies being conducted. This includes review of the concerned topics, review of supportive text, review of books, review of various empirical studies conducted inside and outside the country, review of related articles and journals related to IPO and Interbank loan.

## **Chapter-III**

The third chapter described the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.

## **Chapter -IV**

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

## **Chapter-V**

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



## **CHAPTER-II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

##### **2.1.1 Financial Market**

The financial system fulfills its various roles through markets where financial claims and financial services are traded. These markets may be viewed as channels through which moves a vast flow of funds that is continually being drawn upon by demanders of funds and continually being replenished by suppliers of fund.

A market is not necessarily a physical and geographically identifiable place and goods traded are not necessarily physical goods. Trading might place over the telephone and goods traded might be knowledge etc. goods traded in markets are traded through a price mechanism which expressed the interaction of demand for and supply of these goods as a value.

Financial market is a market in which financial assets can be purchase of sold. Financial markets facilitate financing and investing by households, firms and government agencies. The main participants in financial market transactions are household, business (including financial institutions) and governments that purchase or sell financial assets. Financial markets facilitate the flow of funds from surplus units and to deficit units. Those financial markets that facilitate the flow of short term funds (with maturities of less than one year) are known as money markets, while those that facilitate the flow of long-term funds are known as capital markets.

All securities, whether in the money or capital market are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the resale of securities. Once the securities began to trade among individuals, business, government, or financial institutions, savers and investors, they become part of the secondary market. The primary

market is where new securities are sold and the secondary market can be viewed as a used or pre owned securities market.

### **2.1.1.1 Functions of Financial System**

Financial market performs a vital function within the economic system. The financial markets channels saving to those individuals and institution needing more funds for spending than are provided by their current incomes. The financial markets are the heart of the financial system, attracting and allocating saving and setting interest and security prices.

- **Saving Function**  
Providing a potentially profitable, low-risk outlet for the public saving
- **Wealth Function**  
Providing a means to store purchasing power until needed for future spending on goods and services.
- **Liquidity Function**  
Providing a means of raising funds by converting securities and other financial assets into cash
- **Credit Function**  
Providing a supply of credit to support both consumption and investment spending in the economy
- **Payment Function**  
Providing a mechanism for making payments to purchase goods and services
- **Risk Function**  
Providing a means of protect businesses, consumers and governments against risks to people, property and income.
- **Policy Function**  
Providing a channel for government policy to achieve society's goal of high employment, low inflation and sustainable economic growth

## **2.1.1.2 Types of Financial Markets within the Financial System**

### **1. Money and Capital Market**

The money market is designed for the making of short term loans. It is the institution through which individual and institutions with temporary surplus of fund meet the needs of borrowers who have temporary fund shortages. In contrast, the capital market is designed to finance long-term investments by businesses, governments and households. Financial instruments in the capital market have original maturities of more than one year and range in size from small loans to multimillion rupees credits.

### **2. Debt and Equity Market**

Debt market is the market where debt instruments are traded. A debt instrument is a contractual agreement by the borrower to pay the holder of the instrument fixed rupees amount at regular intervals (interest and principal payments) until a specified date (the maturity date) when the final payment is made. Whereas equity market is the market where equity instruments are traded. Equity instruments are claims to share in the net income and assets of a business.

### **3. Open and Negotiated Markets**

Open market is the market where institutional mechanisms created by society to make loans and trade securities in which any individuals and institution can participate. Negotiated market is the market where institutional mechanisms set up by society to make loans and trade securities in which the terms of trade are set by direct bargaining between a lender and a borrower. In the negotiated market for corporate bonds, securities generally are sold one or a few buyers under private contract.

### **4. Primary and Secondary Markets**

Primary market is the market for the trading of new securities never issued before. A primary market is the financial market in which new issues of securities are sold to initial buyers by the corporation or government agency borrowing the funds.

Secondary market is the market deals in securities previously issued. A secondary market is a financial market in which securities that have been previously issued can be resold.

### **5. Exchanges and Over the Counter Markets**

Exchanges market is the market where buyers and sellers of securities (or their agents or brokers) meet in on central location to conduct trades.

Over the counter market is the market where dealer at different locations have an inventory of securities and stand ready to buy and sell securities 'over the counter' to anyone who comes to them and is willing to accept their prices.

### **6. Spots, Futures or Forward and Option Markets**

Spot market is one in which securities or financial services are traded for immediate delivery (usually within one or two business day). Futures or forward market is designed to trade contracts calling for the future delivery of financial instruments.

Option market also offers investors in the money and capital market an opportunity to reduce risk. These markets make possible the trading of options on selected stocks and bonds, which are agreements (contracts) that give an investor (holder of option) the right, but not the obligation, to either buy designated securities from (call option) or sell designated securities to (put option) the writer of the option at a guaranteed price at any time during the life of the contract (American option).

#### **2.1.2 Money Market**

All transaction carried out in the financial market seems to be basically the same: borrowers issue securities (financial assets) that lenders purchase. When the loan is repaid, the borrower retrieves the securities and returns funds to the lenders. The purpose for money is borrowed with in the financial system vary greatly from person to person and transaction to transaction. And the different purpose for which money is borrowed result in the creation of different kinds of financial assets, having different maturities, risks and other features.

In the money market, loans have an original maturity of one year or less. Money market loans are used to help corporation and government pay the wages and salaries of their workers, make repairs, purchase inventories, pay dividends and taxes, and satisfy other short-term working capital needs.

The money market, like all financial market, provides a channel for the exchange of financial assets for money. The money market is the mechanism through which holders of temporary cash surpluses meet holders of temporary cash deficits. It is designed, on the one hand. To meet the short term cash requirement of corporation, financial institution, and government, providing a mechanism for granting loans as short as overnight and as long as one year to maturity. At the same time, the money market provides an investment outlet for those spending units (also principally corporations, financial institution and government) that hold surplus cash for short periods of time and wish to earn at least some return on temporary idle funds. The essential function of the money market is to bring these two groups into contact to make borrowing and lending possible.

#### **2.1.2.1 Need of Money Market**

The need of a money market arises because receipts of economic units do not coincide with their expenditures. These units can hold money balances to insure that planned expenditure can be maintained independently of cash receipts (that is, transactions balances in the form of currency, demand deposits). There are however, costs in the form of foregone interest involved, by holding these balances. To enable the economic units to minimize this cost, they usually seek to hold the minimum money balances required for day-to –day transactions. They supplement these balances with holdings of money market instruments. The advantages of money market instruments are: that it can be converted to cash quickly and at a relatively low cost, and it have low price risk due to their short maturities. Economic units can also meet their short-term cash demands by maintaining access to the money market and raising funds there when required.

Money market has an important role to play in raising the funds whenever needed for the industries, firms, government and households. The industries and firms can issue securities to manage the funds and government can borrow funds from money market. The households can sell their holding of securities in the money market.

Money market helps the investor to invest their funds with various alternatives of getting expected returns. They can earn reasonable interest or income from supply of funds in the money market. Money market helps to government in the getting funds for paying day to day expenditures and other unexpected expenses can be paid through a raising funds from money market until the revenue do not come in time. Government can raise fund issuing treasury bills that time government become a borrower for money market after the collection of funds from tax the government purchase treasury bills, this is the case of lender.

Money market helps in timing of cash receipts and disbursement of cash inflows and outflows. Moreover, business firm have cash shortage and they can match the funds from money market by issuing various short-term market instrument or borrowing directly from the networks of financial intermediaries engaged in money market. They become the borrowers in the money market to meet their temporary cash deficiencies as well as lenders to invest when they have surplus cash.

We must remember that money is one of the most perishable at all commodities. The holding of idle surplus cash is expensive, because cash balance earns little or no incomes for their owners. When idle cash is not invested, the holder incurs an opportunity cost in the form of interest income that is forgone. Moreover, each day that idle funds are not invested is a day's income lost forever. When large amounts of funds are involved, the income lost from not profitability investing idle funds for even 24 hours can be substantial. Billions of rupees in credit are extended in the money market overnight or for only a few daylight hours to securities dealers, banks and nonfinancial corporation to cover temporary shortfalls of cash.

Money market provides a channel for the exchange of financial assets for money. Loan is made available to meet purely short-term cash needs of the firm and institution on current account rather than on the capital account. Money market serves the purpose of meeting the short-term cash requirement of the companies, individual households, financial institution and government as well as it helps in providing investment outlets for all those having surplus funds to invest in promising securities having less than one year of maturity. It is thus best for making effective use of the idle funds on a temporary basis.

### **2.1.2.2 Instruments of Money Markets**

A large number of financial instruments have been created for the purposes of short-term lending and borrowing. Money of these money market instruments are quite specialized, and they are typically traded only by those with intimate knowledge of the money market, such as banks and large financial institutions. The characteristics of the various money market instruments that agree in common are low default risk, short-term to maturity and high marketability.

Money market instruments are classified into two groups. First is interest bearing instruments, which are issued with a given par value and a coupon rate. Certificates deposit, euro dollars and inter-bank loan are interest-bearing instruments. Another type is discount paper that is issued with discount or there is no any coupon payment during the life. Treasury bills, bankers acceptances and commercial paper are discount money market instruments.

#### **1. Treasury Bills**

Treasury bills are the most marketable of all money market instruments. T-bills represent the simplest form of borrowing. The government raises money by selling bills to the public. Investors buy the bills at a discount from the stated maturity value. At the bills maturity, the holder receives from the government a payment equal to the face value of the bill. T- bills are extremely liquid, short-term notes that mature in 13, 26, or 52 weeks from the date of issue. The treasury usually offers new bills every week, auctioning them on a discount-from-face-value basis. T-bills are sold only on a discount basis. The

discount to investors is the difference between the price they have paid and the face amount they receive at maturity. T-bills sell in minimum denominations of only Rs. 10,000.

## **2. Commercial Paper**

Commercial paper is a short-term unsecured promissory note issued by a corporation with a well-known impeccable credit rating maturities range from a few days to 270 day most issuer back their commercial paper by maintaining unused bank gives of credit equal to or approaching the amount is a uniquely an American institution. Canada is the only other country with a commercial paper market of any significance and its market is relatively small. No company in Nepal has issued commercial paper so far.

Commercial paper has advantages for both issuer and purchaser. For the issuer the commercial paper rate is normally below the prime rate- the interest rate charged by banks to their best commercial customers. In same recently years, the commercial paper rate has been more than a fall percentage point below the prime rate. From the buyer's point of view, commercial paper offers a return above the rate earned on alternative securities such as treasury bills with only a small amount of additional risk.

## **3. Re-purchase Agreements**

Re-purchase agreements are short-term agreements in which the seller sells a government security to a buyer and simultaneously agree to buy the government security back on a later date at a higher price. Re-purchase agreements are defined as the sales of securities concurrent with an agreement to re-purchase them later. The agreement may call for re-purchase at a specific date for a specific price, or it may be open-ended with either party able to end the arrangement at any time. In the latter case, the lender would be quarantined a fixed return per day over the time the agreement remained in effect.

When owner of T-bill needs, cash the treasury department can do repurchase agreement for the maximum period of seven days. At the time of agreement up to 90% of the par value mentioned in certificate can be provided. Repurchase agreement rate is determined

based on latest weighted average Treasury bill rate with considering periodic rate determined by committee. After repo rate is determined, the bid price which given to institution should be calculated. There is inverse relationship between liquidity and interbank rate that means if liquidity is high in the market, interbank rate is lower and vice versa. NRB is the regulatory body. One of the most important functions of NRB is to control the supply of money and interest rate. To control interest rate NRB issue Treasury bill and repo. If the money supply is high, it reduces interbank rate at that time NRB issue Treasury bill and grab money from market. As a result, interbank rate is come to its level. On the other hand if money supply is low, it increase interbank rate. At that time NRB issue repo. As a result, money is injected in the market that reduce interbank rate again at its level.

#### **4. Banker's Acceptance**

One of the oldest money market instruments, banker's acceptance, came into existence primarily thought foreign trade-maturities of bankers acceptances range from 30 to 180 days, with 90 being the most common.

A banker's acceptance begins with an actual business transaction where the seller has difficult determining the credit worthiness of the buyer and therefore request special assurances with receiving payments. The special assurance of a banker's acceptance is that the bank accepts the responsibility to make the payment for the business transaction. That is, when the bank accepts the transaction payment for the transaction becomes a direct obligation of the bank. Thus, the bank's credit worthiness replaces the credit worthiness of the buyer. The need for a banker's acceptance almost always arises in foreign trade, hand over Federal Reserve regulation also allow their use of domestic trade.

#### **5. Negotiable Certificates of Deposit**

The market for negotiable certificates of deposit is the lowest of the large money markets. It began in 1961 when first National City Bank of New York issued the first negotiable certificates of deposit and a government securities dealer to make a second market at

them. A certificate of deposit (CD) is a debt instrument sold by a depository institution that pays annual interest payments equal to fixed percentage of the original purchase price. In addition, at maturity of original purchase is also paid back. Most CDs have a maturity of 1 to 12 months. Prior to 1961, most CDs were not negotiable; that is, they could not be sold to someone else and could not be redeemed from the bank before maturity without paying a significant penalty. In 1961, with the goal of making CDs more liquid and more attractive to investors issued the negotiable certificates of deposit. It could be resold in a secondary market negotiable CDs, have a minimum denomination of Rs 100,000 but in practice, the minimum denomination to trade in the secondary market is Rs. 20,00,000. Most large commercial banks and many large saving and loans now issue negotiable CDs. In Nepal, only a few commercial banks issue of CDs as money market is not proving efficient.

## **6. Euro Dollars**

The Eurodollars market is another relatively young market whose development as an active market can be traced to the late 1950s. The Eurodollars are basically dollar-denominated deposits that are held in banks outside the United States. Since the Eurodollar market is free from any stringent regulations, the banks can operate at narrower margins as compared to the banks in U.S. The Eurodollars are traded at very high denomination and mature before six months. The Eurodollar market is within the reach of large institutions only and individual investors can access it only through money market funds.

## **7. Interbank Loans**

Interbank loans are short-term funds transferred between financial institutions, usually for a period of one day. Overnight loans between commercial banks are called 'federal funds loans' or more commonly, fed funds. Fed funds arise when a bank holds reserves in excess of those that the Federal Reserve System requires that bank to hold to meet its reserve requirement. Federal funds are thus simply bank reserve loaned from banks with excess reserves to banks with insufficient reserves. The interest rate on these 1- day bank loans is called the federal funds rate. Bankers obtain or sell federal funds simply by

calling other bankers. Fed funds are simply payment loans they pay interest only once, at maturity. Further, fed fund transactions take the form of short term (mostly overnight) unsecured loans.

### **2.1.2.3 Money Market in Nepal**

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

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

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

mostly by commercial banks. The role of other institutions is still insignificant in Treasury bill market.

Commercial banks are the major borrowers and lenders in the short-term money market. Although, commercial bank have been dealing with commercial bills since long, the bill market has its position as underdeveloped in Nepal. Only a larger amount is invested in import bills and LCs and the purchase of export bills. The development of genuine bill market is beneficial both to borrowers and to lenders in a number of ways. For example, bills are normally self-liquidating and therefore offer greater liquidity to the holders. To the banks and financial institution, it provides higher return than treasury bills, and for borrowers, it costs less than under cash credit system. A well developed bill market also helps in generating liquidity throughout the financial system. But Nepal has long way to go to realized the full advantage of bill market because it still lacks institutions like 'discount houses' and 'acceptance houses' and traders prefer cash credit form of short-term financing.

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

In Nepal, money market is in initial phase. It is underdeveloped in terms securities dealt with and institutions involved in the market. Many money market instruments and institutions are still absent in Nepal. Treasury bill market and short-term credit by commercial bill market is evolving steadily despite numerous setbacks.

### **2.1.3 Capital Market**

Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit. These lenders and borrowers coming

together in the capital market play effective financial intermediary role to actives both primary and secondary market through the use of various long term capital market instruments like common stock, bonds, preferred stock, convertible issues and many more like that. The participants in the capital market are small business, large business and government. Funds flowing into the capital market are available by lenders for terms longer than those flowing in the money market are.

Capital market consists of the various suppliers and users of long term finance. As it is differentiated from the money market which embraces short-term finance. The capital market serves as a link between suppliers and users of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and the sellers of securities and all those agencies and institutions which assist the sale and resale of corporate securities (Gupta, 1978:88)

Capital market can be identified as the place where long term lending and borrowing takes place. It is the market where financial instruments having maturity period of more than one year are being traded. It mobilizes savings of individuals through investment in various financial instruments like common shares, debentures, unit schemes from mutual funds etc., which are ultimately deployed for productive purposes in different sectors of the economy. It is the center for government, business firms and various other institutions to raise capital as per their need through the issue of intermediate and long-term securities. The backbone of capital market is formed by various securities exchanges, which provide a playing field for various debts and equity transactions. In that sense, securities market can be considered extremely important constituent of capital market.

The capital market in Nepal is still in an early stage of development with many structural weaknesses. Because of the weak institutional base of the capital market, both individuals and institutions are putting far more of their savings into bank deposits and fixed interest government securities than they would if the market were working properly. Thus, long-term saving, which ought to be invested in the capital market, are going into short-term

instruments. The required legal and institutional infrastructure for the issuance of variety of capital market instruments such as debentures, mutual funds and other innovative marketable instrument have not yet adequately developed in Nepalese market. The trusteeship function for the debenture and mutual fund issue is restricting the issuance of debentures/bonds and collective investment vehicles. These instruments are critical for the transformation of financial and facilitate the entry of small savers in the capital market.

### **2.1.3.1 Historical Background of Capital Market Development in Nepal**

When Biratnagar Jute Mill floated its shares in 1936 AD, it commenced the development of capital market in Nepal. On same positive note, Nepal Bank Ltd. was established in 1937 and in the same year, an institution named Tejarath Adda was established to facilitate loans to the government employees. In the very year, 'Industrial Act' was promulgated to serve as platform in strengthening the process of capital market quite a few companies floated their issues but the level of participation of public was very low mainly because shares of such companies used to go the hands of Rana regime and their families (Gurung 1999,15).

Although democracy was established in 1950 and interim government was formed but the process of strengthening capital market could not get desired momentum, as the government was not able to adopt concrete measures. When the HMG/Nepal issued bonds in 1964, it commenced the trend of government's involvement in issuing various forms of securities like bonds and treasury bills, which is still in practice. In fact, such government bonds still occupy the major position in Nepalese securities market.

In 1974, then government announced *Industrial Policy* under which Security Market Centre was established. However, its activities were very limited as it looked after only a few numbers of aspects of government securities like development bonds, national saving bonds and only few securities of other private companies. The institution used to run under virtual monopoly of government.

In 1976, Security Market Center was turned into Securities Exchange Center (SEC) with the objective of facilitating and promoting the growth of capital market (Adhikari 2004, 75). It was the sole institution representing capital market and used to run under *Company Act*. Later when *Security Exchange Act* was promulgated in 1983, it started to operate under the act. The act carried its main objective as providing systematic and favorable market environment for securities along with ensuring and protecting the interest of individuals and institutional investors as well as to increase the public participation in various firms and companies (Gurung 1999, 15). During the period, SEC used to carry out the activities like brokering, underwriting, managing and marketing public issues including other financial services all by itself. Being a sole institution representing capital market and having limited resources, it was not able to lend secondary market activities to insure liquidity to the issues.

In FY 1990/91 then interim government launched broader financial reform programs under the framework of privatization and liberalization. In this context, the government established two major institutions to widen the reach and range of activities of capital market: Citizens Investment Fund and Nepal Industrial Development Corporation (NIDC). Due to changing economic environment and increasing dynamism in the market, the change in structure and operational procedure of SEC became essential. Hence, in 1993, government divided SEC into two distinct entities namely Security Board of Nepal (SEBO/N) and Nepal Stock Exchange Ltd. (NEPSE).

Securities Board of Nepal 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. SEBON also regulate fair and equitable allotment. SEBON 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.

Stock exchange has been defined as anybody 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 option.

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 other to do security transaction should get approval for securities exchange market from the securities board. After the issue 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 is the only stock exchange market in the country.

#### **2.1.3.2 Primary Market**

A primary market is the place where corporation or governments issue new securities. All securities where in money market 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 that may be invested in productive assets or retirement of debt.

In the primary market the principal sources of funds is the domestic saving of individual and business; other suppliers include foreign investors and governments. The ultimate supplies of funds are those sectors with a surplus of current incomes over expenditures

(saving) and these funds flow to ultimate users, economic use securities to finance a surplus of expenditure over their current incomes.

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

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

### **Advantages of an IPO**

The major benefit of an IPO is that, it provides enhanced liquidity and 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. Besides, in emerging markets it heightens the prestige and recognition of the company among suppliers and prospective customers. Less objective benefits are the sense of success and accomplishment that accompanies a successful IPO and becoming a publicly traded company.

### **Disadvantages of an IPO**

The major disadvantage of an IPO is the fact that management no longer can take decisions as freely as they used to take. There will be ongoing costs associated with the need to supply information on a regular basis to the investors and regulators for being publicly traded firms. Furthermore, there are substantial one-time costs associated with initial public offerings that can be categorized as direct and indirect costs. The direct

costs mainly include legal, auditing and underwriting fees while indirect cost includes management time and effort devoted to conduct the offering and money left on the table. Money left on the table is the amount left by the issuing company because of underpricing of their issues.

### **Reason to go for IPO**

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

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

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

### **2.1.3.3 Methods of Offering**

There are two kinds of public issues, the general cash offer and the right offer. Cash offers are sold to all interested investors, and right offers are sold to the existing shareholders. The first public equity issue that is made by a company is referred to as an initial public offering or an unseasoned new issue. All initial public offerings are cash offerings because, if the firm's existing shareholders wanted to buy the share, the firm would not need to sell them publicly.

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

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

Common methods include:

- Firm commitment
- Best efforts

### **Firm Commitment**

Under this method, the investment bank (or a group of investment banks) buys the securities for less than the offering price and accepts the risk of not being able to sell them. Because this function involves risk, we say that the investment banker underwrites the securities in the firm commitment. In other words, when participating in a firm commitment offering the investment banker acts as an underwriter. To minimize the risks here, investment bankers combine to form a group (syndicate) to share the risk and to help sell the issue. In such a group, one or more managers or co-managers typically has responsibility for all aspects of the issue. The investment bankers in the syndicate serve primarily to sell the issue to their clients.

The difference between the underwriters’s buying price and the offering price is called the spread or discount. It is basic compensation received by the underwriter. Sometimes the underwriter will get noncash compensation in the form of warrants or stock in addition to the spread. Firm commitment underwriting is really just a purchase-sell arrangement and the syndicate’s fee is the spread.

### **Best- Effort**

Under a best effort offering, the syndicate avoids risk as it does not purchase the shares. Instead, it merely acts as an agent, receiving a commission for each share sold. The syndicate is legally bound to use its best efforts to sell the security at the agreed-upon offering price. If the issue cannot be sold at the offering price, it is unusually withdrawn. This form of offering is more common for initial offering than for seasoned new shares. Best effort offering is generally use for small IPOs and firm commitment offering are used for large IPOs.

### **2.1.3.4 Process of Public Issue in Nepal**

Security Act 2006, Company Act 2006, and regulations, by-laws and guidelines issued under the Securities Act provide the basic legal framework for issue of securities to the public. The issuing companies should follow the provisions made by these acts, regulations, by-laws and guidelines while issuing securities. The following are the steps of securities issue process in Nepal.

#### **1. Company Decision**

Under company decision the company makes some preliminary decisions. The rupee amount of new capital required is established. The type of securities to be offered is specified. Stock, bonds, or a combination can be used. If stock is to be issued, should it be offered to existing stockholders or sold directly to the general public. The basis on which to deal with the investment bankers, either by a competitive bid or a negotiated deal, is determined.

#### **2. Appointment of Issue Manager**

The investment-banking firm must be appointed as per the provision in Companies Act, 2006, company must take services of issue manager licensed by Securities Board of Nepal for the public offering of securities on can select the any one or two investment bankers.

### **3. Prospectus Preparation**

Prospectus is the important legal document to provide information about the issuing company and the securities. It includes the company's information on major functioning, capital, financial situation, management involving promoters and directors, operational status and the future prospectus preparation and approval of prospectus is primary task of the public issue. Therefore the issuing company must prepare the prospectus and get approval from SEBON. The information that should be enclosed in the prospectus is prescribed by the Securities Act as well as the Companies Act.

### **4. Filing with SEBON**

Prospectus, due diligence certificate of issue manager and other documents should be filed with SEBON to get the prospectus approved.

**Prospectus** It is the legal document containing the information regarding issuing company and the securities. Issue manager and the company must prepare this document.

**Due Diligence Certificate of Issue Manager** It is the certificate issued by the issue manager stating that the issue manager has reviewed all the information contents of the prospectus and is satisfied with the content of the information and basis of the and content of it.

**Other Documents** These documents includes declaration of the company stating that it has complied with the prevailing laws of the nation applicable to it, financial statements, details of promoters and executive of the company, and details on any issues related with the company.

### **5. SEBON's Review by the Prospectus Vetting Committee (PVC) of SEBON**

In the PVC of SEBON there are members representing SEBON, Nepal Rastra Bank, Stock Exchange, Insurance Board and Company Registrar's Office. While reviewing the prospectus and other documents, PVC mainly focuses financial as well as other material information that it crucial for investors to make investment decisions.

## **6. Clarification**

Once the prospectus and other documents submitted with prospectus reviewed by SEBON, it asks the issuer to submit clarification where it is not satisfy and incorporate in the prospectus accordingly.

## **7. Prospectus Approved by SEBON**

When the issuer submits the prospectus updating as per the required clarification, SEBON approved it for the publication. While approving the prospectus, SEBON can put certain conditions regarding the issue of securities. It may be to incorporate in the prospectus, any new information about the issuing company.

## **8. Issue Open and Issue Close**

Issue should open within 2 months of prospectus approval. Announcement should be published at least 7 days before the issue open. Announcement should contain major information of the prospectus. Application shall be accepted for a minimum period of five and maximum of 15 working days from the date of opening. However, if arrangements have been made for at least ten centers for collection of application forms, one at least in each development region, and minimum number of days required to accept the application forms shall be four. If the issuer could not open the issue within the prescribed period, to issue securities, it should again file the prospectus to the SEBON incorporating any new information. And the approval process will be same as described above.

## **9. Allotment and Refunding**

Allotment process of Initial Public Offering

- After receiving of application for share purchase, it should be determined on the basis of application serial number provided by collection center.
- Among the received application, the application which does not fulfill the criteria according to memorandum should be rejected from share allotment process.

- The applications which fulfill the criteria according to memorandum should be classified into different class interval on the basis of application volume and applied share number. If applications are not concentrated in same unit or number then the class interval should be determined considering not more than 20% of total application in one class interval.
- At the time of allotment, allotted share number should be of board lot determined by Nepal Stock Exchange or its multiple numbers.
- After determining serial number on the basis of share application class interval, the table should be made as follows and the details should be filled from column number

Class	No. of received application	Application number/ Total application number	Applied no.	Applied no./ Total applied no.	No. of share allotted to each applicant	No of allotment share	N of allotment share/ Total of allotment share	No of investor receiving share	Weight of share allotment
1	2	3	4	5	6	7	8	9	10

- Provisional allotment should be done in each category of the above table. This type of allotment should be made in ratio between available number and applied number of share. After that, provisional allotment should be done in favour of small investor. By allotting in this way, share relative weighted should be converging towards the group who had applied for large numbers of share unit.
- At the time of allotment, the share unit should not be given more to the applicant who have applied for small number of share unit as compared to applied for large no of share unit.
- When the share cannot be allotted to the entire applicant at that time priority should be given to small investors. It is compulsory if the share is issued publicly and the par value up to Rs 5 crore then in each lakh there should be minimum of 50 shareholders. On the other hand if no of share more than 5 crore number of share holder should not be below 25 thousands and 20 shareholders in each one lakh.
- The share allotment information should be disclosed in newspaper within 3 days of allotment decision as an advertisement.

- Allotment of the issue shall be made within the time frame as given below

<b>Number of Application</b>	<b>Time for Refund</b>
Up to 100,000	40 days
100,001 to 200,000	50 days
200,001 to 300,000	60 days
300,001 and above	70 days

Within 5 days of the allotment, refunding should be started. As per the Securities Registration and Issue Regulation, 2009, the refunding should be made in the bank account of the applicants mentioned in the share application form. In case of failure to allot the securities and refund the money within the stipulated time, issuing company and issue manager shall be responsible, and require to pay the applicants, the interest, as stated by the Company Act, from the day of closure of the issue till the day preceding which the company started refunding.

## **10. Listing for the Secondary Trading**

In Nepal, Issuer Company have currently two options for listing securities for the purpose of providing liquidity. Either it can list to the stock exchange or to the Over-the-counter (OTC) market. Both the Options are currently provided by the Nepal Stock Exchange Ltd.

### **2.1.3.5 Types of Securities Offered in the Primary Market**

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

#### **1. Common Stock**

Common stock is the security issued by a company to raise equity capital. It is one of the major sources of long-term (permanent) capital. Common equity is used to finance major portion of the firm's fixed assets. It represents ownership of the company. Common stock certificates are legal documents that evidence ownership of the holders in a company. Common stockholders have residual claim on income and asset. Similarly, in the event of liquidation, common stockholders have a residual claim on the assets of the company.

Common stock does not have a maturity date. Shareholders, however, can sell their stocks in the secondary market.

## **2. Preferred Stock**

Preferred stock represents the long-term source of financing. It occupies an intermediate position between long-term debt and common stock. In the event of liquidation, a preferred stockholders' claim on assets comes after that of creditors but before that of common stockholders. Similarly, while distributing income preferred stock dividend is distributed after payment of interest but before distribution of common stock dividend. Preferred stock is a hybrid form of financing with combined features of both debt and common stock.

## **3. Bond**

A bond is a long-term promissory note, promising to pay interest and/or principal, on specific date, to the holders of the bond. Generally, bond issuer pays a fixed interest payment each period until the bond matures. This is known as coupon. At maturity, the borrower pays back the bondholder the bond's face value (principal). While issuing a bond, the bond issuer must prepare an indenture. It is a legal agreement between the firm issuing the bonds and the bond trustee. A trustee (usually commercial bank) is appointed by the bond issuer when the bond is issued.

## **4. Warrants**

A warrant is a long-term option that gives the holder the right to purchase a stated number of shares of the company's stock at a specified price within stipulated period of time. Warrants are long-term call options that have value because holders can buy the firm's common stock at the exercise price regardless of how high the market price increases. This option offsets the low interest rate on the bonds and attracts investors

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

### **2.1.3.5 Parties Involved in IPOs in Nepal**

IPO being complex and time-consuming process often needs the participation of a number of entities. In this reference, generally those parties or institutions, which do play some role during the process of IPOs in Nepal, are discussed here under.

#### **1. Issuing Company**

It refers to the company, which is committing IPO to raise capital from public. As provisions of *Company act, 2063* only public limited companies are allowed to go for IPO. The act has specifically stated that the private companies should not issue their shares or debentures to the public. Similarly, as per *NRB Directives* Banks and Finance Companies had to go for IPO within certain stipulated time. Furthermore, as per provisions of *Bank and Financial Institutions Act, 2006* Banks and Finance Companies should set aside minimum of 30% of their issued capital, to be allocated to the public. However, 5% of such shares could be allocated to their employees.

#### **2. Issue Manager**

Issue manager is an institution who is solely responsible to manage initial public offering. As per *Securities Act, 2062* issue managers are institutions holding license from the Nepal Stock Exchange to manage public offering issues. Now, NEPSE has authorized 9 finance companies to serve as issue manager. Issue managers receive issued commission from issuing company in return of their services. Such issue commissions are decided through negotiation although, *Securities Issue By-laws, 2054* have stipulated maximum limit for it.

#### **3. Bankers to the Issue**

Bankers to the issue are normally commercial banks and their main responsibility is to provide custodian service to the issuing company. They may or may not receive applications from the investors, issue acknowledgements for the same and enter the application details in application schedules. They may also be involved in the process of

realizing the proceeds of issue through cheques/drafts and release final certifications to the issue manager for the number of applications and amount collected.

#### **4. Collection Centers**

These are the authorized institutions to collect application from the investors issue acknowledgement for the same and the proceeds of issue through cheque/drafts. They also issue final certificates to the issue manager for the number of application and amount collected. They are provided collection charges for their services, which are usually determined through negotiation and based on number of applications handled and amount collected. Banks, finance companies or brokerage house mostly performs such roles.

#### **5. Others**

Various other institutions like SEBO/N, NEPSE, NRB and CRO also do play same role influencing IPO in one way or the other. As per provisions of *Securities Act, 2063* issuing companies should get issue approval from SEBO/N. The companies should also get issue approval from Company Registrar's Office (CRO). If the issuing companies are financial institutions then they need to obtain approval from NRB as well, prior issuing their shares to public. Similarly, trading of securities is considered illegal, if they are not listed in NEPSE.

## **2.2 Review of Related Studies**

This section of the study draws excerpts from international journal articles, Nepalese journal articles along with Masters' dissertations. International journals have been accessed through the website. Similarly, Nepalese journals and Masters' dissertations have been accessed from Keshar Mahal library, National library, Shanker Dev Campus library, Central library of T.U. and library of SEBON.

### **2.2.1 Review of International and Nepalese Journals/ Articles**

**Ritter (1991)** 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 IPOs, book-building, price stabilization and the costs of going public are also discussed. It has also documented and analyzed three empirical patterns: short run under pricing, hot issue markets and long-run under performance. 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 Ritter summarized that the companies going public, especially, young companies face a market that is subjected to sharp swing 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 there patterns of IPO's and US and many countries of new issue under pricing, cycles in volume and extent of under pricing and long run under performance. Yet in some respects, Ritter found the poor performance of IPOs in the long-run as a puzzle in the new issues under pricing phenomenon. Ritter also documented that the number of US IPOs is immense which subsequently contributed in the development of

infrastructure to create and fund young companies, especially in the high technology sector.

**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 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 o the French Stock Exchange on 1999 to 2001. A sample of latest French offering with a fraction of the share 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 researcher concluded that, if noise traders are bullish, they are ready to buy IPO’s share at high prices. In this framework, IOP’s price reflects 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 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.

**Kafle (2005)** carried out an article “Primary Market Development in Nepal: issues and challenges.” His study was based on bank and financial Act and Security Ordinance 2005. Writer 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. Writer also shed light the fact that newly issued Securities Ordinance 2005; the SEBON would be better placed to regulate the integrity of

disclosure 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.

**Pandey (2005)** wrote an article o “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 reason 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. Researcher 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. Writer 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.

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

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

**Dahal (2007)** carried out a research study on “The Performance of Nepalese IPOs.” The study was based on 107 IPOs from the FY 1993 to 2006. The study mainly focused on subscription times of securities on IPO and IPOs return.

After the completion of study, researcher asserted that Nepalese IPOs had been heavily oversubscribed. The study showed that the investors have very high degree of attraction on the IPOs. It was noticed that Nepalese IPOs in terms of issues 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 the other hand, it shows that due to higher underpricing, higher wealth lost 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 of total assets affects the subscription times of issued positively and the debt equity ratio affected the same negatively.

**Leung and Philip (2008)** performed a research survey on “Impact of IPO Activities on the Hong Kong Dollar Interbank Market,” the objective of the research is to find out whether IPOs influence volatility of interbank interest rate, the effect of IPO related finding pressure spread to longer term HIBORs. Leung and Philip found out the following finding from their research:

- Hong Kong has witnessed an equity Initial Public Offering (IPO) boom since 2005. The fund-raising activities are often accompanied by large capital flows and result in transitory and sharp increases in credit demand, exerting substantial funding and liquidity pressures on the banking system. This paper traces the payment flows of a typical equity IPO, analyses the conditions under which the banking system may experience funding pressures and estimates empirical models to quantify the impact of IPO activities on the level and volatility of HIBORs.
- As the interbank payments involved in an IPO can be hundreds of times larger than the Aggregate Balance, increased funding needs and heightened demand for interbank liquidity may drive interbank interest rates up. Interbank funding pressures are most likely to emerge on the closing date and the refund date of an IPO. On the closing date, sponsoring banks have to borrow from receiving banks because of large payment obligations arising from the transfer of application monies from the former to the latter. The fund flows reverse on the refund date when the refund monies are distributed back to the sponsoring banks from the lead receiving bank.
- Empirical results from error-correction models and GARCH models for HIBORs show that funding needs on the closing date increase the level and conditional volatility of the overnight and one-week HIBORs (but not those of the one-month and longer-term HIBORs). On the other hand, estimated models for HIBORs with different maturities do not detect a statistically significant effect of the IPO variable on the refund date.
- The estimation results predict that when the IPO monies on the closing date are 100 times the level of the aggregate balance, the overnight HIBOR increases by 4.33 basis points on average, and the one-week HIBOR increases by 1.54 basis points on average. These results may provide useful information for determining the amount of market operations by the HKMA, if such operations are considered necessary to smooth out interest rate volatility during a particularly large IPO.

### **2.2.2 Review of Thesis**

**Shrestha (1996)** “Public Response to Primary issue of share in Nepal.” His study reveals the fact that the scope of primary market is recent days in booming. Even the general investors heavily invest their saving in the new issue of shares causing over subscription to a great deal. Shrestha here asserts that the growth of the primary market is encouraging since many public limited companies including joint venture banks have been successful in tapping capital through the floatation of shares to the general public. The positive response of the investors to the companies is a direct manifestation of the growing public confidence in the primary market. The general public simply taps everything that comes on their way, regardless of the promoter’s background and company feasibility. Each company come into the market has been successful in tapping the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions.

He further adds that the public response varies from one business sector to another business sector. The mismanagement that follows when the subscription list is open and the subsequent deal in the allotment of shares tend to undermine the confidence of the investors thereby hindering the future growth of the primary market. primary market is affected by the projected dividend, ROI through prospectus and issue managers, etc. on the contrary; there exist other uncontrollable forces, which hinder the smooth functioning of the primary market.

The study conclude that public response to the issue of share 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 issue of shares seems to attract from outside the valley.

**Pandey (2001)** who has done research on “Public Response to Primary Issuer of Share 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 reason for variation. He has the following findings from his research:

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

**Chand (2004)** in his thesis paper entitle “Investment on Risk free Assets by Nepalese Commercial Banks” has made effort to measure the investment practice of commercial bank on risk free assets. He had made conclude that commercial banks interest to invest in risk free assets. The banks are more interest to invest in risk free assets rather than long-term risk free assets. The commercial bank have invest around 21.36% of total deposit in risk free assets and also conclude that each of the banks under study have invested only on treasury bills among the different types of short term investment instrument

**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**

From the above study it can concluded that IPO is one of the most important component of capital market. Although numerous studies have been carried out in different part of the world covering different aspects of IPOs, they are vague and truncated. So, it is difficult to analyze from these research. The previous studies cannot be ignored because they provide foundation to the present study. Very few studies have analyzed people response to IPOs in Nepal. But none of the studies have been able to find out about interbank loan and rate. It is very clear that the new research cannot be found on the exact topic i.e. ‘Increasing interest of people in IPO and its impact on interbank rate’. Therefore to fulfill this gap, this research is selected. To complete this work many books, journals, articles and various published and unpublished dissertation are followed as guideline to make the research easier and smooth.

This study tries to understand pace of IPOs and its issue process in Nepal, parties involved in IPOs in Nepal, subscription pattern at the time of IPOs and its relation with Interbank loan rate. Furthermore, it highlights on money market instruments especially in interbank rate. This study will beneficial to large mass of public who want to know about initial public offering and interbank rate and interested to invest in primary market.

Moreover, this study is also useful to the parties who are related to initial public offering and interbank rate directly and indirectly.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

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 and sampling procedure, sources data and analysis techniques.

#### **3.1 Research Design**

A research design is a plain, structure and strategy to obtain the objectives of the study. The research was based on the secondary as well as primary data and information. Hence, the explanatory or descriptive as well as analytical research design has been used. The variables related with the performance of the company, market information and relevant subjects are included in the study.

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

The population for this study comprised of all public limited companies of various sector viz. banking sector, development bank sector, finance sector, insurance sector, manufacturing and processing sector, trading sector, hotels, and other sector. Therefore all the companies whose securities were approved by SEBO/N for going to public are taken as sample and the required data have been collected from the various sources covering a period of seven years i.e. from 2001/02 to 2008/09.

#### **3.3 Nature and Sources of Data**

The require data for the study are collected from the primary and secondary sources. Securities Board Nepal and Nepal Rastra Bank are the main institutions which provide most of the data required for the study. The web site of the respective institutions and their annual reports are the major sources of secondary data. Besides, necessary data also collected from the annual reports of the selected companies, concerned issue managers, and annual report of Nepal Stock Exchange.

### **3.4 Data Collection Procedure and Methods of Analysis**

Analysis is the careful study of available facts so that one can understand and drew conclusion from them on the basis of established principles and sound logic. This study mostly based the analysis of secondary data with the help of different statistical tools. The empirical results have been extracted in this study by using annual data of listed companies from 2001/02 to 2008/09.

#### **Statistical Tools**

To draw the conclusion by analyzing the collected data simple statistical tool like arithmetic mean, multiple bar diagram, pie-chart are used and tabulation are use to implicit the comparative results.

#### **Arithmetic Mean Average**

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observations.

#### **Multiple Bar-Diagrams and Graphs**

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

multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

### **Pie-Diagram**

A pie diagram is a widely used aid that is generally used for diagrammatic presentation of the various 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.

### **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.

### **Correlation**

Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. When both the value of the variable deviate in the same direction, i.e., increase or decrease in the value of one variable results in a corresponding increase or decrease in the value of another variable, then the correlation is said to be positive correlation. When both the value of variables deviates in the opposition direction, i.e. increase or decrease in the value of one variable result in a corresponding increase or decrease in the value of another variable, then the correlation is said to be negative or inverse correlation.

## **CHAPTER- IV**

### **PRESENTATION AND ANALYSIS OF DATA**

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, response, expectation etc. The secondary data used to analyze the public response to the initial public offering, per year and sector wise along with under and over subscription, amount of issue approved, growth of public offering and impact on interbank rate. All the analysis is based on simple statistical calculation.

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

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

###### **4.1.1.1 Amount of Issued Approved**

Securities Exchange Act has made mandatory that the issuing company should register the securities in SEBON and get approval before going to public. Since first year of SEBON operation, FY 1993/94, it has given issued approval to 324 issues amounting Rs. 39389.90 million till FY 2008/09. A total of 64 public limited companies raised funds amounting to Rs. 16828.50 million by floating securities in the fiscal year 2008/09. In the fiscal year 2007/08, a total of 64 public limited companies had raised funds amounting to Rs.10668.20 million. Whereas a total of 34 public limited companies had raised funds amounting to Rs. 2295.50 million in fiscal year 2006/07. The details are as follows

**Table 4.1**  
**Amount of Issue Approved**

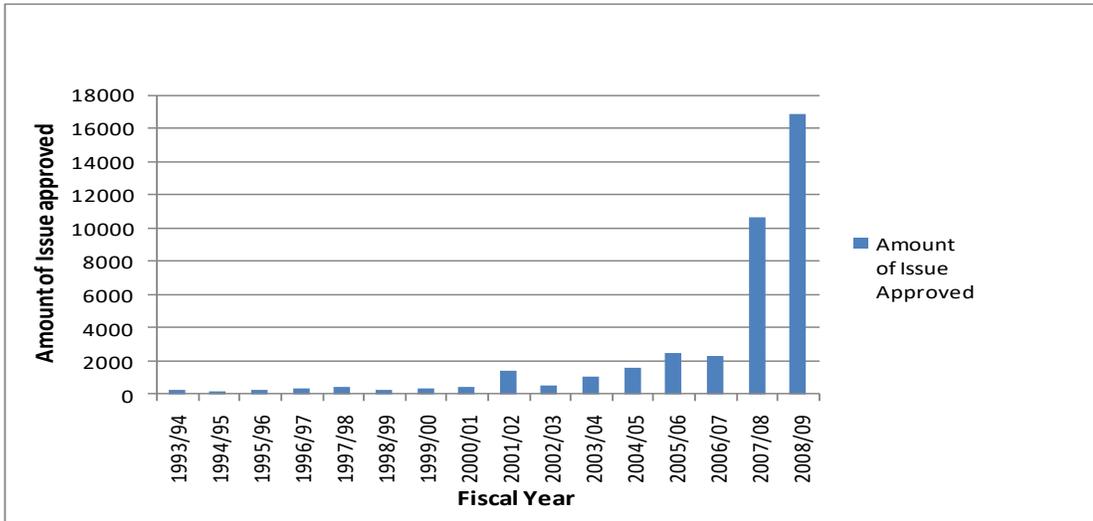
*(Rs. in million)*

<b>Fiscal Year</b>	<b>Amount of Issue Approved</b>	<b>% of Issued Approved</b>
1993/94	244.40	0.62
1994/95	173.96	0.44
1995/96	293.74	0.75
1996/97	332.20	0.84
1997/98	462.36	1.17
1998/99	258.00	0.65
1999/00	326.86	0.83
2000/01	410.49	1.04
2001/02	1441.33	3.66
2002/03	556.54	1.41
2003/04	1027.50	2.61
2004/05	1626.82	4.13
2005/06	2443.28	6.20
2006/07	2295.50	5.83
2007/08	10668.20	27.08
2008/09	16828.51	42.72
<b>Total</b>	<b>39389.90</b>	<b>100</b>

*Source: SEBON Annual Report 2008/09*

Table 4.1 shows that the amount of issued approved by SEBO/N vary during the period. The highest amount of issue approved was Rs. 16828.51 million (42.71%) in the fiscal year 2008/09 and it was followed by Rs. 10668.20 million (27.08%) in the fiscal year 2007/08. Similarly, the least issue approved for the period was Rs. 173.96 million (0.44%) in fiscal year 1994/95 and it was followed by Rs. 244.40 million (0.62%) in fiscal year 1993/94.

**Figure 4.1**  
**Amount of Issued Approved**



As shown in the figure 4.1, it is seen that the amount of public offered has been in rising trend during period

**4.1.1.2 Number of Public Issue Approved**

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

**Table 4.2**  
**Number of Public Issue**

*(Rs. In million)*

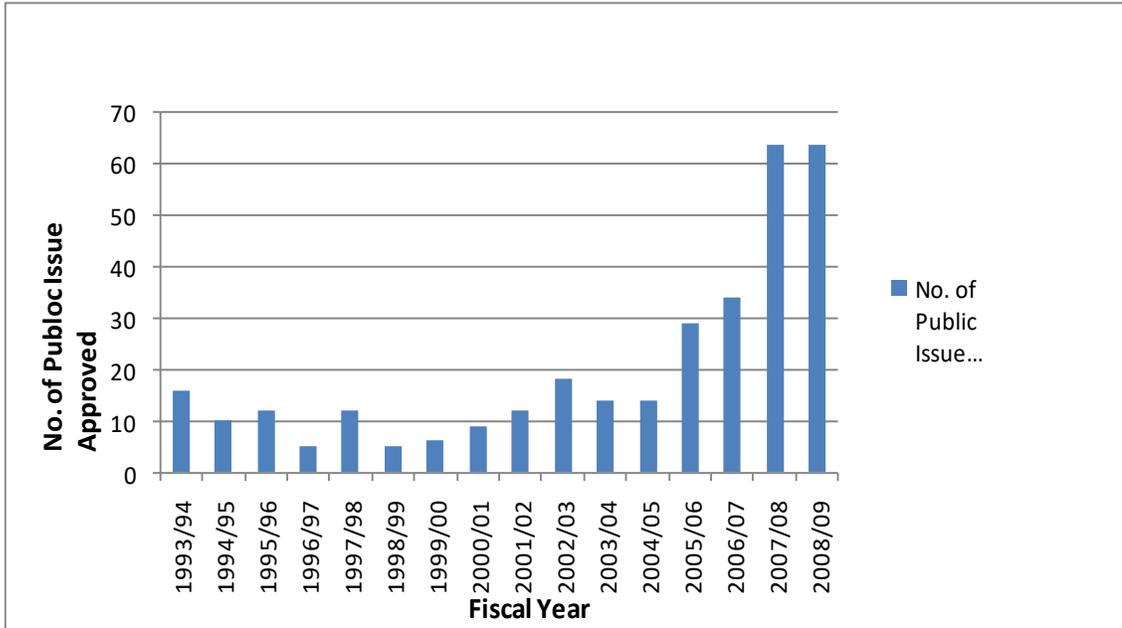
<b>Fiscal Year</b>	<b>No. of Issue</b>	<b>Annual Growth Rate (%)</b>
1993/94	16	-
1994/95	10	(37.50)
1995/96	12	20
1996/97	5	(58.33)
1997/98	12	58.33
1998/99	5	(58.33)
1999/00	6	20
2000/01	9	50
2001/02	12	33.33
2002/03	18	50
2003/04	14	(22.22)
2004/05	14	0.00
2005/06	29	107.14
2006/07	34	17.24
2007/08	64	88.24
2008/09	64	0.00
<b>Total</b>	<b>324</b>	<b>-</b>

*Source: SEBON Annual Report 2008/09*

Likewise, the amount of public issue, the number of issue offered in a fiscal year also had not shown any consistent trend over the study period. During the entire study period the lowest number of issue offered in a fiscal year were 5 on two fiscal years, FY 1996/97 and FY 1998/99. The highest numbers of issue offered in a fiscal year were 64 also on two fiscal years, FY2007/08 and in the last fiscal year of the study period, FY 2008/09.

The annual growth of issue offered has also been in fluctuating trend. The highest growth in number of public issue was 107.14% in FY 2005/06, whereas the least growth in number of public issue was -58.33% on two fiscal years, FY 1996/97 and FY1998/99.

**Figure 4.2**  
**Number of Public Issue**  
**Approved**



**4.1.1.3 Sector Wise Public Issue Approved**

During the period of 1993/94 to 2008/09 SEBON approved different types of securities of different sector for public issue. The detail situation of the issue approved of such sectors have been presented in table 4.3

**Table 4.3**  
**Sector Wise Issue Approved from 1993/94 to 2008/09**

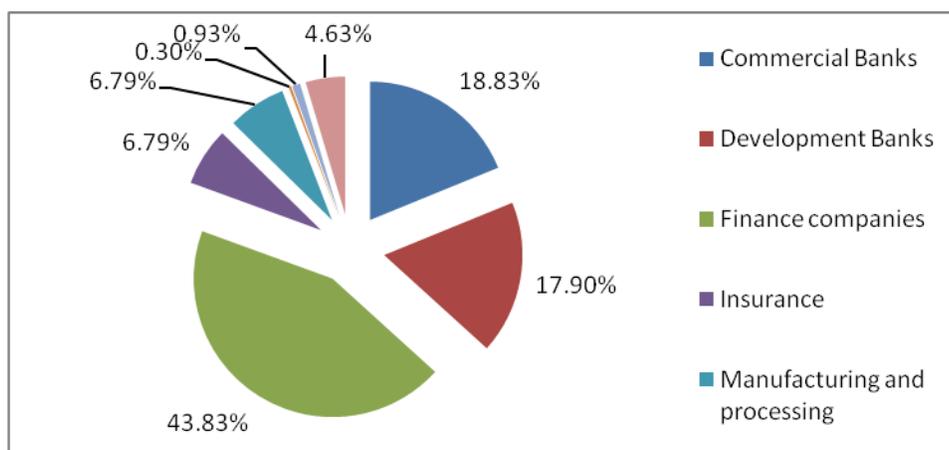
Sector	No. of issue approved	% of issue
Commercial Banks	61	18.83
Development Banks	58	17.90
Finance companies	142	43.83
Insurance	22	6.79
Manufacturing and processing	22	6.79
Trading	1	0.30
Hotel	3	0.93

Other	15	4.63
<b>Total</b>	<b>324</b>	<b>100</b>

Source: SEBON Annual Report

The table shows that SEBON accepted the various sector's issues for going to public. The highest issue approved by SEBON during the period of fiscal year 1993/94 to 2008/09 is 142 issues (43.83%) of Finance sector and it was followed by 61 issues (18.83%) of banking sector, 58 issues (17.90%) of development banks sector. Similarly, the least issues approved during the period is 1 issue (0.30%) of trading sector and it is followed by 3 issue (20.03%) of hotel sector and 15 issue (4.73%) of other sector.

**Figure 4.3**  
**Sector Wise Issue Approved**



#### 4.1.2 Over and Under Subscription of Ordinary Shares

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 then 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 4.4 As revealed from table 4.4, total of 150 different companies issued ordinary shares to the public during the study period of FY 1993/94 to 2008/09.

In the FY 1993/94 total of 14 companies issued their ordinary shares through IPO and all of them were oversubscribed. In the subsequent year, FY 1994/95 10 companies went for IPO, out of which 7 companies issue ( 70% of total issue) were oversubscribed, 2 of the Issues (20%) were fully subscribed while remaining 1 issue (10%) was undersubscribed. Similarly, in FY 1995/96 out of 10 issues, 5 issues were oversubscribed while remaining 5 issues were undersubscribed. FY 1996/97 shows two companies issuing their common shares through IPO and issues of both companies experienced oversubscription. In FY 1997/98, out of 8 issues: issues of 5 companies experienced oversubscription, 2 issues experienced under subscription while remaining 1 issue was fully subscribed. Similarly, in FY 1998/99 out of 3 issues 2 were oversubscribed and 1 issue was undersubscribed.

**Table 4.4**  
**Subscription Pattern of the Ordinary Shares**

Fiscal Year	Total no of Issues Company	Over Subscribed		Under Subscribed		Fully Subscribed		Unknown	
		No. of Company	%	No. of Company	%	No. of Company	%	No. of Company	%
1993/94	14	14	100	0	0	0	0	0	0
1994/95	10	7	70	1	10	2	20	0	0
1995/96	10	5	50	5	50	0	0	0	0
1996/97	2	2	100	0	0	0	0	0	0
1997/98	8	5	62.5	2	25	1	12.50	0	0
1998/99	3	2	66.67	1	33.33	0	0	0	0
1999/00	3	3	100	0	0	0	0	0	0
2000/01	7	7	100	0	0	0	0	0	0
2001/02	5	4	80	1	20	0	0	0	0
2002/03	14	14	100	0	0	0	0	0	0
2003/04	10	10	100	0	0	0	0	0	0
2004/05	7	6	85.71	1	14.29	0	0	0	0
2005/06	14	14	100	0	0	0	0	0	0
2006/07	15	15	100	0	0	0	0	0	0
2007/08	16	14	87.50	0	0	0	0	2	12.50
2008/09	12	10	83.33	0	0	0	0	2	16.67
Total	150	132	88	11	7.33	3	2	4	2.67

*Source: SEBON Annual Report*

However, in FY 1999/00 all the companies' issues i.e., 3 were oversubscribed. This pattern was repeated in FY 2000/01, when all the 7 issues were oversubscribed. But in FY 2001/02 out of 5 issues were oversubscribed while remaining one issue was under

subscribed. However, the trend of 100% oversubscription recurred in two subsequent FY 2002/03 and FY 2006/04. All 14 issues in FY 2002/03 and 10 issues in FY 2003/04 were oversubscribed but the trend was distorted in subsequent year, 2004/05 when out of 7 issues, 1 issue was undersubscribed while remaining all 6 issues were oversubscribed. The table further shows that during the period of FY 2005/06 and FY 2006/07 all the issues were oversubscribed. Similarly in FY 2007/08 out of 16 issues, 14 issues were oversubscribed and remaining 2 were unknown. Again, in the FY 2008/09 total of 12 companies issued ordinary share and out of them 10 were oversubscribed and 2 were unknown.

Hence, from the total of 150 issues, 132 issues representing 88% of total issues were oversubscribed, 11 issues accounting 7.33% were under subscribed and 3 issues 2% were fully subscribed where there was unknown about subscription pattern of 4 issues representing 2.67% of total no of issue. 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.

### 4.1.3 Sector Wise Public Response to IPO

#### 4.1.3.1 Public Response to Commercial Banks

Out of total commercial banks, only 10 banks are taken as sample. To make the result more effective as possible as sample are taken from each fiscal year.

**Table 4.5**

#### **Public Response to Commercial Banks**

<b>S. No.</b>	<b>Name of the Company</b>	<b>Issued FY</b>	<b>Share Issued ('000')</b>	<b>Subscription Times</b>	<b>Result</b>
1	Nepal SBI Bank Ltd.	1993/94	36	14.05	Over sub
2	Nepal Bangladesh Bank Ltd.	1994/95	36	22.20	Over sub.
3	Bank of Kathmandu Ltd.	1996/97	45	5.36	Over sub
4	NIC Bank Ltd.	1999/00	175	8.16	Over sub
5	Machhapuchchhere Bank Ltd.	2002/03	165	1.98	Over sub
6	Kumari Bank Ltd.	2003/04	150	8.11	Over sub
7	Lumbini Bank Ltd	2004/05	150	7.21	Over sub
8	Siddhartha Bank Ltd.	2005/06	150	18.65	Over sub
9	Global Bank Ltd.	2007/08	300	34.25	Over sub
10	Prime Commercial Bank Ltd.	2008/09	300	29.85	Over sub

*Source: SEBON Annual Report*

Above table 4.5 shows that the issued share of commercial bank along with subscription times. In all the ten cases we have found subscription times is higher than one i.e. all the issues are oversubscribed. The range of over subscription is between 1.98 to 34.25 times. For the 3000,000 shares issued by GBL in FY 2007/08 102,750,000 shares have been applied that means it was oversubscribed by 34.25 times. Similarly, 29.85 times subscription incase of PCBL, 22.20 times subscription in the case of NBBL, 18.65 times in the SBL, 14.05 times in NSBL, 8.16 times in NICB, 8.11 times in KB L, 7.21 times in LBL, 5.36 times in BOKL and 1.97 times in case of MBL.

From above it is clear that commercial banks share issues are getting good response from public. Public are found to be interested in shares of commercial banks. The average subscription times of commercial banks in the above sample are 14.99 times.

#### 4.1.3.2 Public Response to Development Banks

From the total development banks, only eight development banks are taken as sample.

**Table 4.6**  
**Public Response to Development Banks**

S. No.	Name of Development Banks	Shares Issued '000'	Issued FY	Subscription Times	Result
1	Nepal Development Bank Ltd.	480	2000/01	29.06	Over sub
2	Development Credit Bank Ltd.	480	2001/02	14.10	Over sub.
3	Chhimek Bikas Bank Ltd.	30	2003/04	1.39	Over sub
4	Deprose Development Bank Ltd.	34.80	2004/05	2.59	Over sub
5	Siddhartha Development Bank Ltd.	200	2005/06	2.22	Over sub
6	Malika Bikas Bank Ltd.	150	2006/07	54.84	Over sub
7	Clean Energy Development Bank Ltd.	960	2007/08	36.46	Over sub
8	Public Development Bank Ltd.	600	2008/09	28.26	Over sub

*Source: NCML, NMB and SEBON Annual Report*

In all the public issue of development banks, we found over subscription all the time. That means public are also interested in development banks shares. Among them MBBL was highly subscribed in FY 2006/07, the subscription times was 54.84 times. For the share issued 150,000, there was application for 8,226,000 shares. Similarly CEDBL was oversubscribed by 36.46 times, NDBL was oversubscribed by 29.06 times, PDB was oversubscribed by 28.26 times, DCBL was oversubscribed by 14.10 times, DDBL was oversubscribed by 2.59 times, SDBL was oversubscribed by 2.22 times and the least subscribed but still over-subscribed was in the case of CBBL by 1.39 times.

#### 4.1.3.3 Public Response to Finance Companies

Out of total finance companies, issued share only 12 finance companies are taken as sample.

**Table 4.7**  
**Public Response to Finance Companies**

S. No.	Name of Finance Companies	Shares Issued '000'	Issued FY	Subs. Times	Result
1	Nepal Share Market and Finance Ltd	40	1993/94	4.95	Oversub.
2	Kathmandu Finance Ltd	80	1994/95	7.72	Oversub.
3	Universal Finance and Capital Markets Ltd.	150	1995/96	0.4	Under subs.
4	Mahalaxmi Finance Ltd	100	1997/98	1.89	Oversub.
5	Lumbini Finance and Leasing Co. Ltd.	240	1999/00	11.56	Oversub.
6	United Finance Company Ltd.	240	2001/02	10.56	Oversub.
7	Cosmic Merchant Banking Finance Ltd	240	2003/04	7.18	Oversub.
8	Everest Finance Ltd	80	2004/05	5.40	Oversub.
9	Srijana Finance Ltd	40	2005/06	1.21	Oversub.
10	Emporial Financial Institution Ltd.	195	2006/07	25.68	Oversub.
11	Prabhu Finance Company Ltd.	480	2007/08	77.30	Oversub.
12	Crystal Finance Ltd	210	2008/09	31.06	Oversub.

*Source: NCML, NMB and SEBON Annual Report*

Above table 4.7 shows the 11 times shares are oversubscribed whereas only in the case of UFCML, it is under subscribed. Only 67440 shares are applied for 150,000 shares. The over subscription range is between 1.21 to 77.30 times. In the sample highest over subscription of 77.30 times is in case of PFCL where 3,710,400 shares are applied for only 48,000 shares. There is 31.06 times subscription in the case of CFCL, 25.86 times in case of EFIL. Similarly, 11.56 times was oversubscribed in case of LFLCL, 10.56 times in case of UFCL, 7.72 times in case of KFCL, 7.18 times in case of CMBFL, 5.40 times

in case of EFL, 4.95 times NSMFL, 1.89 times in case of MFL and 1.21 times in case of SFL. This all shows that public is interested in shares of finance companies also.

#### 4.1.3.4 Public Response to Insurance Company

For the research, only 5 insurance companies are taken as sample.

**Table 4.8**  
**Public Response to Insurance Company**

S. No.	Names of the Insurance Co.	Shares Issued '000'	Issued FY	Subs. Times	Results
1	Himalayan General Insurance Company Ltd.	120	1993/94	1.88	Oversub.
2	Premier Insurance Company Ltd.	120	1994/95	19.36	Oversub.
3	Alliance Insurance Company Ltd.	200	1998/99	0.63	Under Sub.
4	Nepal Life Insurance Company Ltd.	500	2001/02	7.56	Oversub.
5	Prudential Insurance Company Ltd.	200	2003/04	9.57	Oversub.
6	Lumbini General Insurance Company Ltd.	250	2007/08	71.73	Oversub.

*Source: NCML, NMB and SEBON Annual Report.*

Above table 4.8 shows the public response to insurance companies ranges from 0.63 to 71.73 subscription times. As shown 5 times shares are oversubscribed whereas only in the case of AICL, it is under subscribed. In the sample highest over subscription is 71.73 times in case of LGICL. Same in case of PICL with 19.36 times over subscription, in PICL 9.57 times over subscription, in NLICL 7.56 times over subscription, in HGICL 1.88 times over subscription.

All this shown that people are interested to invest in insurance company's ordinary share and they are a good option to invest.

#### 4.1.3.5 Public Response to Non-Financial Sector

Non-financial sector includes manufacturing and processing companies, trading companies, hotel, hydropower sector and others. Out of the total only 8 are taken as sample.

**Table 4.9**

#### **Public Response to Non- Financial Sector**

<b>S. No.</b>	<b>Name of the Company</b>	<b>Shares Issued '000'</b>	<b>Issued Fiscal Year</b>	<b>Subscription Times</b>	<b>Result</b>
1	Nepal Lever Ltd.	138	1993/94	6.54	Over sub.
2	Necon Air Ltd.	150	1993/94	3.57	Over sub.
3	Leatherage Bansbari Tannery and Shoes Factory Ltd.	1500	1994/95	0.71	Over sub.
4	Colour Scan Nepal Ltd.	165	1995/96	0.07	Over sub.
5	Shreeram Sugar Mills Ltd.	143.4	1997/98	0.53	Over sub.
6	Taragaon Regency Hotels Ltd.	465	1998/99	2.47	Over sub.
7	Oriental Hotels Ltd.	1200	1999/00	6.29	Over sub.
8	National Hydro Power Co. Ltd.	1400	2004/05	0.22	Over sub.
9	Chilime Hydro Power Co. Ltd	2374.10	2005/06	5.10	Over sub.

*Source: NCML, NMB and SEBON Annual Report*

From above table, 4.9 are found the subscription of 4 companies to be under subscribed and rest 5 companies to be oversubscribed. And at the same time oversubscribed ranges from 2.47 to 6.54 times only which is seen to be lower than other financial sectors response. Public is use of LBTSFL, SSML, NHPCL and CSNL have the subscription of 0.71, 0.53, 0.22 and 0.07 times respectively. NLL has higher subscription of 6.54 times. OHL, CHPCL, NAL and TRHL have subscription of 6.29, 5.10, 5.37 and 2.47 times respectively.

#### 4.1.4 Weighted Average Inter-Bank Rate

The weighted average interbank rate from FY 1999/00 to 2008/09 is shown on the table below.

**Table 4.9**

#### **Weighted Average Interbank Rate**

<b>Fiscal Year</b>	<b>Weighted Average Interbank Rate (%)</b>
1999/00	4.16
2000/01	4.05
2001/02	4.19
2002/03	3.62
2003/04	3.03
2004/05	3.39
2005/06	2.47
2006/07	2.26
2007/08	4.20
2008/09	5.07

*Source: NRB Annual Report*

The above table exhibits the weighted average interbank rate from FY 1999/2000 to 2008/09. The interbank rates of first three consecutive years are roaming around 4%. Then, it decrease around 3% in other three consecutive years. The highest weighted average interbank rate is in FY 2008/09 (5.07%) and it was followed by 4.20% in FY 2007/08. It indicates that, the weighted average interbank rate is in increasing trend from FY 2007/08. In fiscal year 2006/07, the weighted average interbank rate is lowest with 2.26% and it was followed by 2.47% in FY 2005

#### 4.1.5 Amount of Ordinary Issue Approved and Weighted Average Interbank Rate

Amount of ordinary issue approved and weighted average interbank rate from FY 1999/00 to 2008/09 is presented in the following table and figure.

**Table 4.10**

#### **Amount of Ordinary Issue Approved and Weighted Average Interbank Rate**

<b>Fiscal Year</b>	<b>Amount of Ordinary Issued Approved ( Rs '000000')</b>	<b>Weighted Average Interbank Rate (%)</b>
1999/00	202.26	4.16
2000/01	278.70	4.05
2001/02	315.46	4.19
2002/03	394.30	3.62
2003/04	657.30	3.03
2004/05	377.48	3.39
2005/06	579.83	2.47
2006/07	380.30	2.26
2007/08	924.80	4.20
2008/09	1815.70	5.07

*Source: SEBON and NRB Annual Report*

The above table shows the amount of ordinary issued approved is increasing from FY 1999/2000 to 2002/03 and become nearly double in the FY 2003/04. After 2003/04 there is fluctuation in the amount of ordinary issued approved until it reaches to 2007/08. Then it increase after 2007/08 and followed by 2008/09. The amount of ordinary issued approved is highest in the FY 2008/09 and become lowest in the FY 1999/2000.

In FY 1999/2000, 2000/01, 2001/02, 2002/03, 2003/04 and 2004/05 the amount of ordinary issued approved are Rs 202.26 million, Rs 278.70 million, Rs 315.46 million, Rs 394.30 million, Rs 657.50 million and Rs 377.48 million respectively. Likewise, the weighted average interbank rate is also fluctuating as amount of ordinary issue approved. The weighted average interbank rate in six consecutive year are 4.16%, 4.05%, 4.19%, 3.62%, 3.03% and 3.39% respectively. After FY 2005/06, it was found that the weighted

average interbank rate is increasing and decreasing with amount of ordinary issued approved. Moreover, the weighted average interbank rate is increasing in FY 2007/08 i.e. 4.20% and 2008/09 i.e. 5.07% where the amount of issued approved are Rs 924.80 million and Rs 1815.70 million respectively

#### 4.1.6 Average Subscription Times of Ordinary Share and Weighted Average Interbank Rate

**Table 4.11**

**Average Subscription Times of Ordinary Share and Weighted Average IR**

<b>Fiscal Year</b>	<b>Average Subscription times of Ordinary Share</b>	<b>Weighted Average Interbank Rate</b>
1999/00	8.1	4.2
2000/01	29.7	4.1
2001/02	8.2	4.3
2002/03	11	3.6
2003/04	7.9	3.0
2004/05	4.9	3.4
2005/06	8.1	2.5
2006/07	40.1	2.7
2007/08	45.6	4.2
2008/09	23.2	5.1

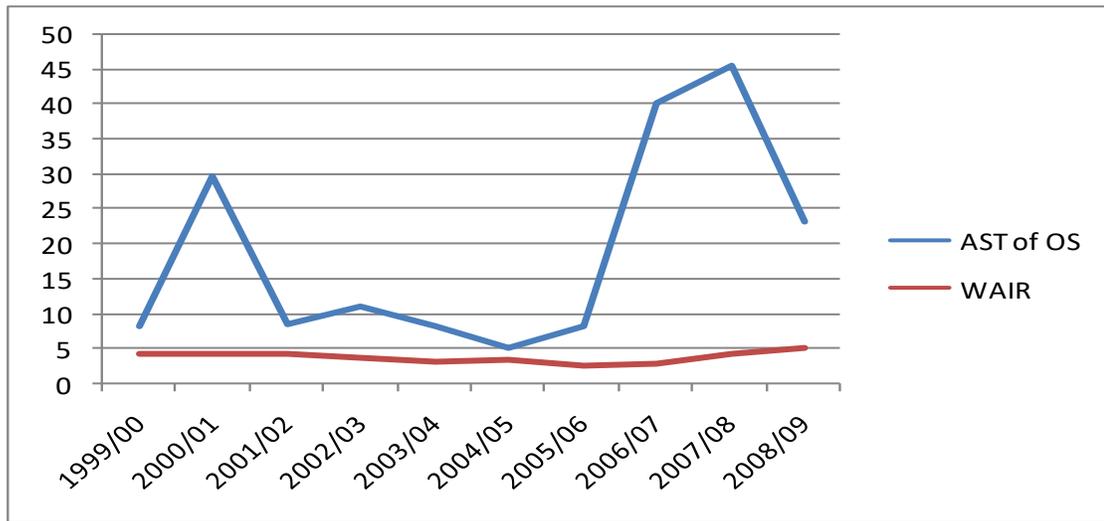
*Source: SEBON and NRB Annual Report*

The table provides information on average subscription times of ordinary share and weighted average interbank rate from FY 1999/2000 to 2008/09. The average subscription times of ordinary share is highest in FY 2007/08 and lowest in FY 2004/05 with 45.6 times and 4.9 times respectively. The subscription times of ordinary share are equal in FY 1999/00 and FY 2005/06 that is 8.1 times. On the other hand, the subscription times of ordinary share are drastically increased in the FY 2000/01 and in the FY 2006/07, which is clearly seen on the table i.e. with 29.7 times and 40.1 times. The later on 40.1 times the second highest is followed by the highest 45.6 times in FY 2007/08. Similarly, the weighted average interbank rate is highest in FY 2008/09 and lowest in FY 2005/06. The weighted average interbank rate is equal in FY 1999/2000 and in the FY 20007/08. There is fluctuation in weighted average interbank rate from FY

1999/00 to 2004/05. Then in FY 2005/06 decrease to 2.5% and increases there after by 2.7%, 4.2% and 5.1% in FY 2006/07, 2007/08 and 2008/09 respectively.

**Figure 4.4**

**Average Subscription Times of Ordinary Share and Weighted Average IR**



#### 4.1.7 Correlation between WAIBR and Issue Amount of Ordinary Share & AST of Ordinary Share

**Table 4.12**

**Correlation between WAIBR and Issue amount of Ordinary Share & AST of OS**

Description	Result
Correlation between WAIBR and Issue Amount of Ordinary Share	0.48
Correlation between WAIBR and Average Subscription Times of Ordinary Share	0.16

*Source: Appendix 2 and 3*

From the computation of information from the table, the correlation between WAIBR and issue amount of ordinary share & AST of ordinary share is 0.48 and 0.16 respectively. It shows that there is positive correlation between them. It also reveals that issue amount and average subscription times of ordinary share increases then weighted average

interbank rate is also increases and vice versa. In other word it can be said that issue amount and average subscription times of ordinary share positively impact on interbank rate.

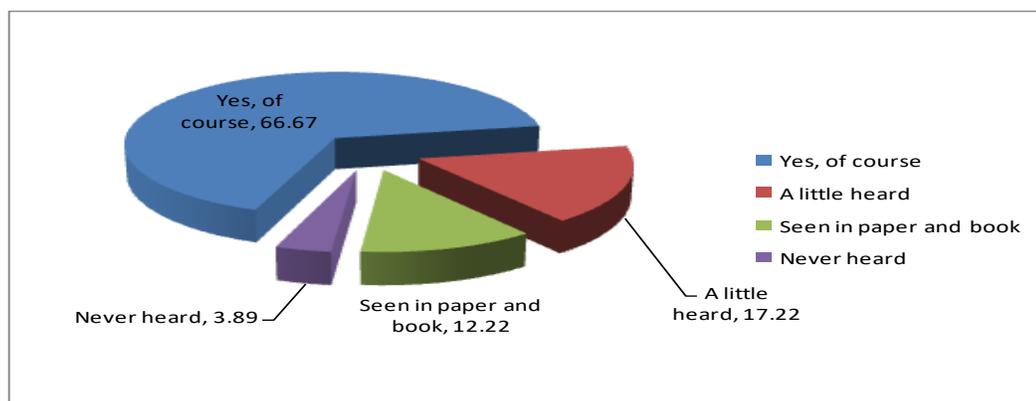
## 4.2 Primary Data Analysis

Along with secondary data, primary data are also taken to give more reliable result to the research. Questionnaire method is used to get the primary data. Only 180 respondents are taken for the data collection. The response of public have analyzed as follows.

### 4.2.1 Knowledge about IPO and Interbank Rate

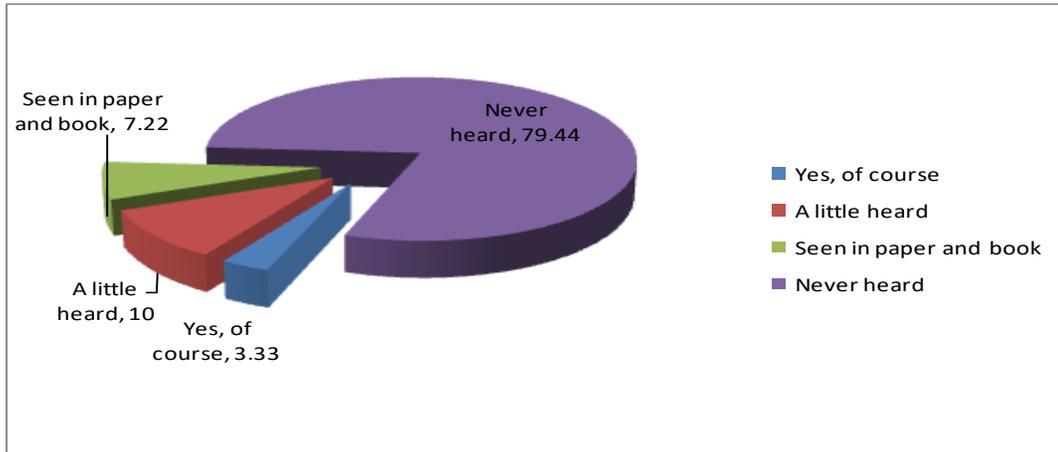
While getting information about if people had heard about IPO from 180 respondents 66.67% said that they are well-known about IPO, 17.22% said that they have heard a little about it, 12.22% said seen in paper and books and rest 3.89% said that they have never heard about IPO. Where as in case of interbank rate it is reserve most of the people i.e. 79.44% said that they have never heard about it. Similarly, 10% said that they have heard a little about it, 7.22% said seen in paper and book and only 3.33% said that they are well-known about interbank rate.

**Figure 4.5**  
**Knowledge about IPO**



*Figure Source: Appendix 4*

**Figure 4.6**  
**Knowledge about Interbank Rate**



*Figure Source: Appendix 4*

#### 4.2.2 Willing to Invest in IPO

In context to the willing to invest in IPO, 40.56% of the respondent replies that there interest to invest in IPO depends upon the sector. Similarly 28.89% of the respondent replies that they are willing to invest in IPO even with the loan if not the hard cash, 21.11% stated they want to invest if had money and only 9.44% of the respondent are found to be risk averter, they do not want to take risk at all from investing in IPO

**Figure 4.7**  
**Willing to Invest in IPO**

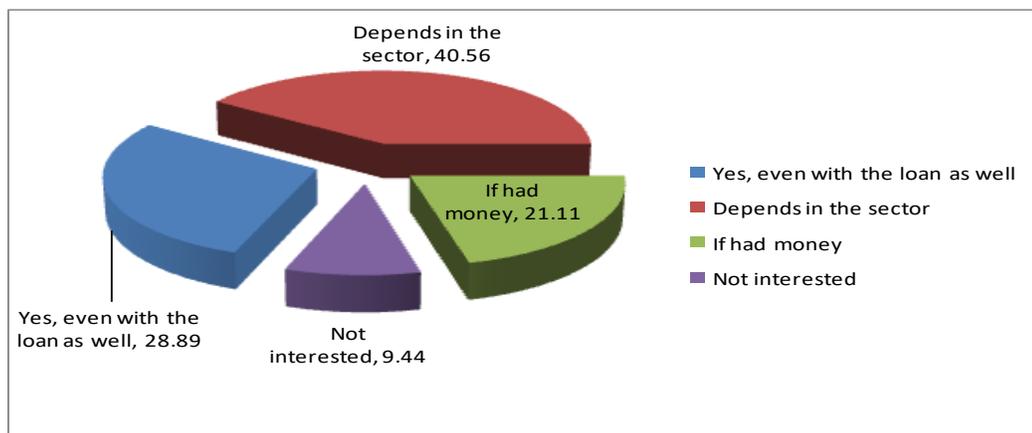


Figure Source: Appendix 4

### 4.2.3 Source of Information about IPO

With respect the information about primary issue securities, majorities of respondents 56.11% replied that they get information through media, 28.89% of them know through friends and relatives, 4.44% of them through issue managers and issuing companies and rest 10.56% know through other sources like stock brokerage firm, senior employee of the office and market.

**Figure 4.8**  
**Source of Information about IPO**

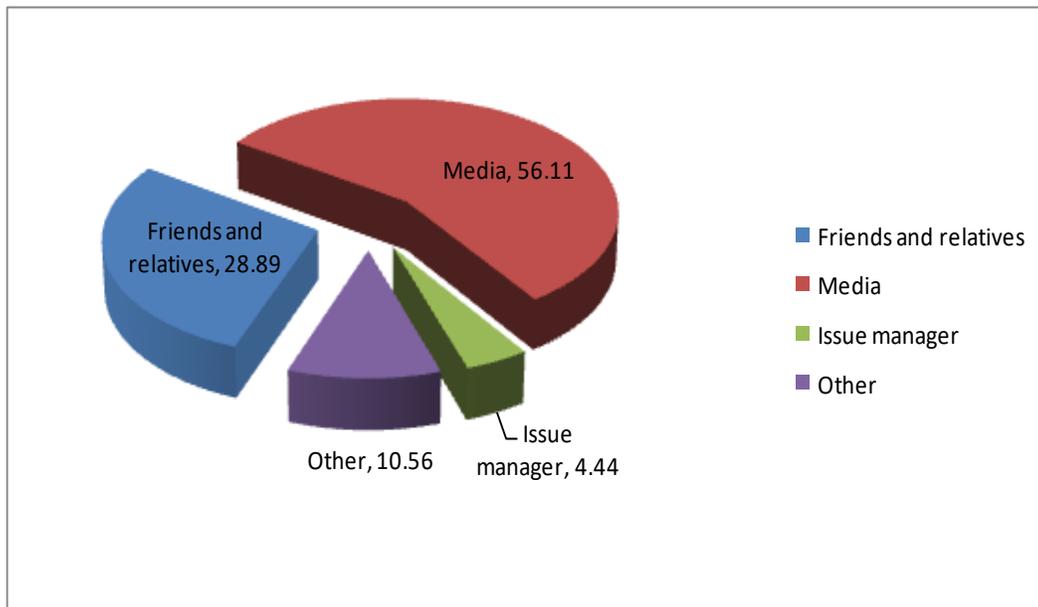
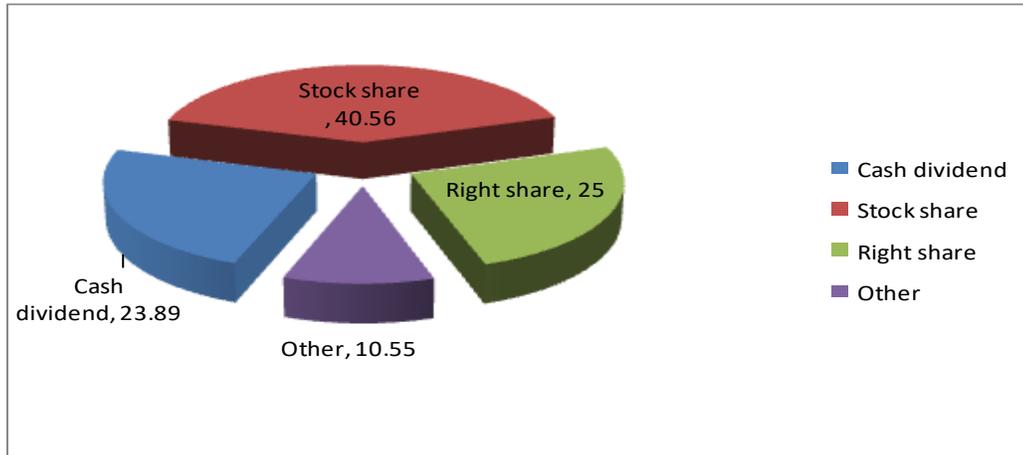


Figure Source: Appendix 4

### 4.2.4 Expectation behind Investment in IPO

Different people have different expectation behind investment in IPO. For the question regarding this responses are 23.89% expects cash dividend, 40.56% expects bonus share, 25% states to be favor of right share while rest 10.55% seen to be interested in other than these matters.

**Figure 4.9**  
**Expectation behind Investment in IPO**



*Figure Source: Appendix 4*

#### 4.2.5 Sector Preference for Investment

In relation to the preferred sector for investment, most of respondents i.e. 56.67% interested in banking sector, 21.67% were interested in development bank sector, 10.56% were interested in finance company sector, 7.77% were interested in insurance companies sector and rest 3.33% were interested in other like manufacturing and processing, trading company, hotels, hydro power sector.

**Figure 4.10**  
**Sector Preference for Investment**

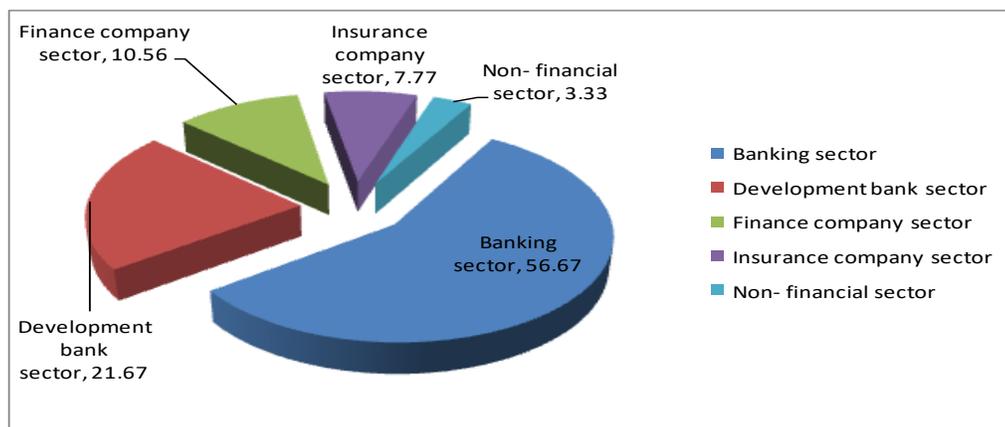


Figure Source: Appendix 4

#### 4.2.6 Preference of Market for Investment

Out of 180 investors 77.22% shown their preference to invest in the primary market and rest 22.78% shown their preference to invest in the secondary market. Most of the investors think that the share price of companies in primary market is less than secondary market and they able to gain more capital gain from primary market.

**Figure 4.11**  
**Preference of Market for Investment**

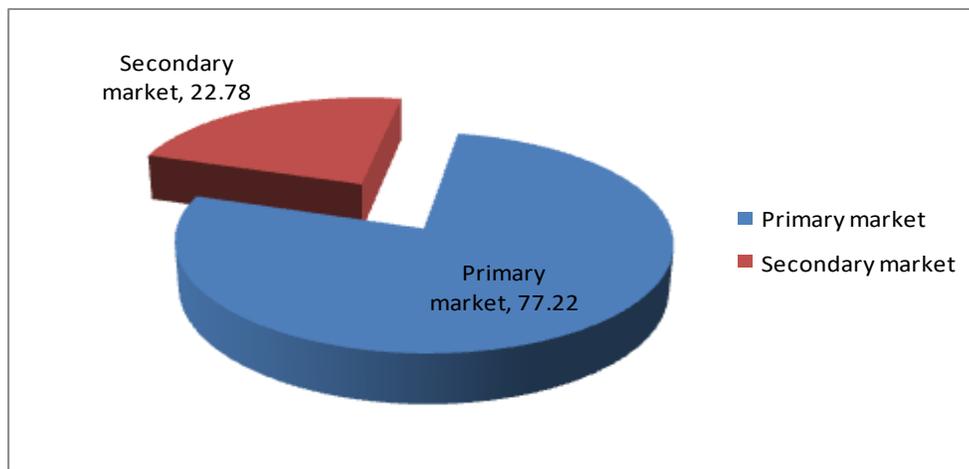
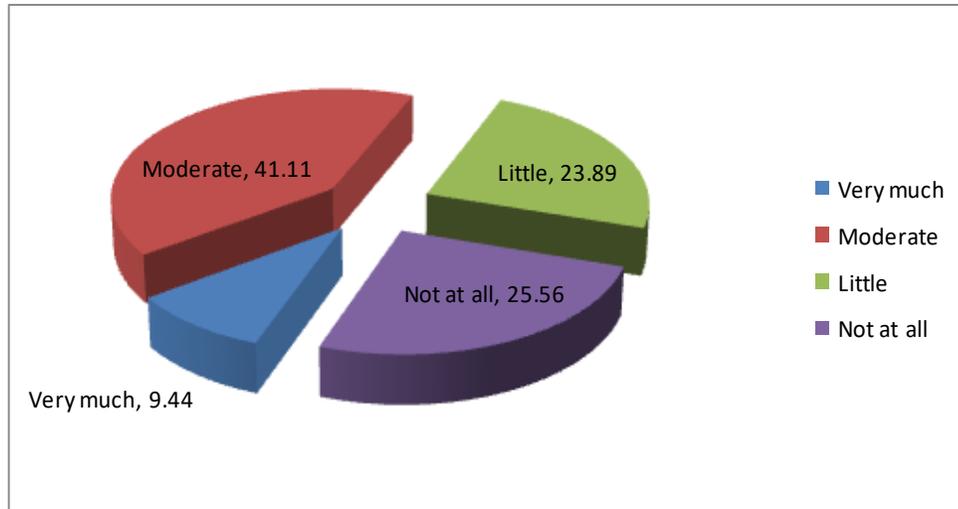


Figure Source: Appendix 4

#### 4.2.7 Awareness about Performance of Issuing Company

In context to the awareness about performance of issuing company, 46.67% of the respondent replied that they have moderate knowledge about the issuing company, 25.56% of the respondent replied that they have no knowledge about the performance of the issuing company. 23.89% of the respondent replied that they have little knowledge about the performance of the issuing company and rest 9.44% of the respondent replied that they have good knowledge about issuing company.

**Figure 4.12**  
**Awareness about Performance of Issuing Company**



*Figure Source: Appendix 4*

#### **4.2.8 Causes of Over Subscription in IPO**

In relation to the cause over application of primary issue of securities 33.89% of public said the main reason of oversubscription is due to high future from IPO, 31.67% of respondents stated that they have lack of investment opportunities in other sectors, 23.88% of respondents answer was low interest rate on bank deposit, and only 10.56% of public view towards over subscription was due to corporate image.

**Figure No 4.13**  
**Cause of Over Subscription in IPO**

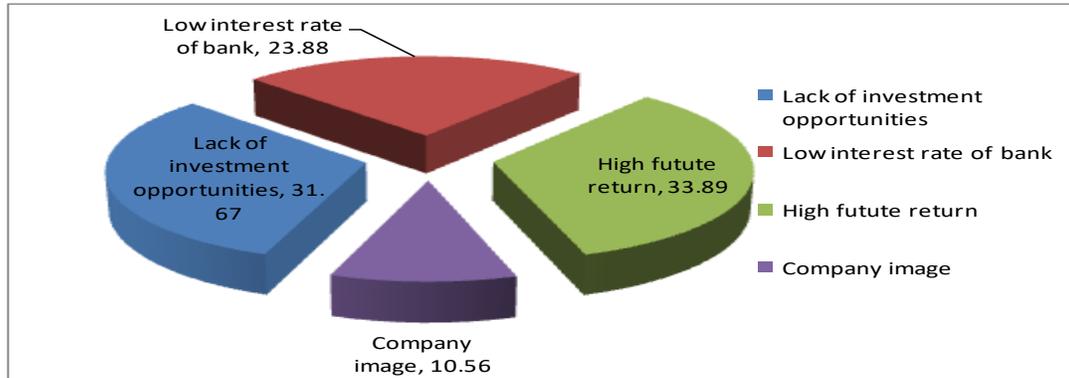


Figure Source: Appendix 4

### 4.3 Major Findings

The study was set out to analysis of increasing interest of people on IPO and its impact on interbank rate. The data which were obtained through primary and secondary sources were analyzed using different statistical tools. The major findings are;

- The amount of issued offered has increased from Rs. 244.40 million in FY 1993/94 to Rs. 16828.51 million in FY 2008/09. During the period, the no. of issues offered increase from 16 in FY 1993/94 to 64 in FY 2008/09.
- The highest amount of issues approved by SEBO/N for the public subscription during the FY 2008/09 of Rs. 16828.51 million where lowest amount of issue approved for the public subscription is in FY 1994/95 of Rs 173.96 million. Similarly, the highest no. of issue approved by SEBO/N is 64 in two consecutive FY 2007/08 and FY 2008/09 and lowest no. of issue is 5 in FY 1996/97.
- During the study period 150 companies have offered their common shares through IPO to public, out of which offers from 136 companies 90.67% of total offers have received over subscription. Similarly, 11 companies' issues have received under subscription while only 3 company's issues have been fully subscribed. Furthermore, sector wise analysis of subscription pattern revealed that issues from commercial banks, development banks have been fully oversubscribed. Also most of the issues from finance companies and insurance companies have been oversubscribed. But issues from manufacturing and processing sector have mostly been under subscribed.

- It has been observed from the study that the people knowledge about IPO is well. Whereas, it has been found totally different result about the knowledge of interbank rate. Among the respondents it has been observed that the respondents who are working in banking sector and who are graduated in related subjects are familiar with it. Beside these, the general people don't have any knowledge regarding interbank rate. Although the study has found the respondents who have already graduated, they also don't know about it.
- Most of the respondents (40.56%) willingness to invest in IPO depends on the sector and this study also found that the people prefer their own money (28.89%) than loan (21.11%) to invest in IPO.
- Majority of the people information source about IPO is media. And it has been also found that Nepalese investor's expectation behind investment in IPO is bonus share. Many research shows that in developed countries investor expectation behind investment in IPO is cash dividend, but this study exhibits that the Nepalese investor prefers it only after stock dividend and right share.
- The study also reveals that the Nepalese investor have not developed sufficient knowledge about risk management through portfolio yet. Because most of the investors (96%) prefer invest in one sector that is financial sector.
- It has been observed from this study that awareness about the performance of issuing company is not satisfactory. The respondents who have known, very much (9.44%) about the performance of issuing company are hardly found.
- Due to high future return and lack of investment opportunities people are attracted towards IPO and which in turn causes the oversubscription in IPO.
- The study prevails that the correlation between issued amount of ordinary share and weighted average interbank rate is positive that is 0.482. Furthermore, the correlation between average subscription times of ordinary share and weighted average interbank rate is also positive i.e. 0.16. Both the results show that there is positive relationship between these three variables.

## **CHAPTER-IV**

### **SUMMARY, CONCLUSION & RECOMMENDATION**

#### **5.1 Summary**

This study has been conducted in partial fulfillment of the requirement of the degree of Master of Business Studies (MBS). The study is altogether related with the increasing interest of people in IPO and its impact on interbank rate. As the first step in the preparation of the thesis, as required by the formal of the study, overall study has been divided in five respective chapters presenting various sequential arrangement of materials and data which are relevant to the study.

General information of financial market, status of market in economy, initial public offering, interbank rate and other introductory part of the study. After general information about the initial public offering and interbank rate, area or focus of the study has been presented which is prepared by gathering the existing information about the IPO and interbank rate. The study without the objectives is like the journey without destination. So, objective of the study along with limitation as well as importance are presented in successive pages. In the same chapter, importance of the study has been shown to provide information about how this thesis helps new researches and individual to know about IPO and interbank rate. Due to the lack of time, cost, technique of data collection and area of the research may affect in reliability of research these all are shown on limitation of the study.

The second chapter is prepared based on the various previous literatures which were collected from various sources. In the first phase of second chapter, conceptual review helps us to understand the financial system, function of financial market, types of financial market. Moreover, money market, types of money market instruments, need of money market, capital market, types of capital market, historical background of Nepalese capital market primary market and initial public offering, advantage and disadvantage of

IPO, reason for going public, methods of offering, types of securities offered in the primary market, parties involved in IPOs in Nepal, procedural aspects of IPOs in Nepal. Likewise, in the second phase of this chapter, we can find various journals and articles that previous researchers already studied.

The overall study framework and roadmap of the study has been presented in next chapter called research methodology. This chapter is basically prepared to disclose the designed and format used to present the information in systematic way. The disclosure about the population and samples and sources of data are presented in this chapter. Along with these various tools used in the study are mention in the same chapter.

Using the tools, as mention in research methodology, presentation has been made about the IPO and interbank rate. In chapter four analyses has been shown from various dimensions and sides of available data and information which have helped to fulfill the objectives of study. To make the research easily understandable and more reliable both the primary and secondary data have been used. Secondary data like amount and number of public issue approved, over and under subscription of ordinary share and sector wise public issue approved are presented through tables and figures. Likewise, sector wise public response to IPO, weighted average interbank rate, amount of ordinary issue approved and weighted average interbank rate and subscription times of ordinary share and weighted average interbank rate are also presented. Moreover, under the heading of primary data view regarding respondents are presented (i.e. knowledge about IPO and interbank rate, willingness to invest in IPO, sources of information about IPO, expectation behind investment in IPO, sector preference for investment, preference of market for investment, awareness about performance of issuing company and causes of over subscription in IPO) with the help of pie-chart. The major findings of the study are also considered in the same chapter.

After the overall study of related materials through the various techniques, summary, some conclusive sentences and some suggestions has been presented in next chapter. It is prepared including the major conclusions drawn from the study along with the summary

of the study. Moreover, as recommendation, some suggestions to the participant of the IPO and interbank loan were provided which was derived from the result of the study.

## **5.2 Conclusion**

From various data analysis and presentation, conclusion of the study can be point out in this way;

- Most people are in favor of regulation by NRB for IPO funding via financial institution as it lessens the equal chance of getting allotment. Most of the shares go in part of big investors. This kind of mismanagement in allotment discourages the investors. Contract between the issue manager and the issuing company highly affects the whole IPO process, so make this as the people need, it should also be regulated. People are eager to know the promoter, company's performance before investment, IPOs handled by bigger brokerages are found to be more successful.
- The financial sector which comprises commercial banks, development banks, finance companies and insurance companies has dominated Nepalese IPO market as revealed by the number of issues offered during the study period.
- Most of the companies' issues received overwhelming demand from public which has led to oversubscription of their issues. Furthermore, issues from all the sample companies belonging to commercial banks and development banks. Similarly, most of issues from Insurance company's finance companies have been also been oversubscribed. Issues from only sample non- financial sector are mostly undersubscribed. This concludes that the general public has good faith on the IPO issues being offered by companies belonging to financial sector while issues from non-financial sector are not accepted with that great enthusiasm.
- Vast deviation is found in the primary market in Nepal during 1993/94 to 2008/09 period, number of issue approved ranges from 64 at highest in FY 2007/08 and FY 2008/09 to 5 at lowest in FY 1996/97 and FY 1998/99.
- Even though the whole IPO process is very long, Nepalese investors are interested to invest in this sector.
- Money market is slowly growing to meet the temporary short term credit needs of the government although companies and firms have not yet been able to be

benefited from the use and importance of money market as a source of short term fund as well as investment for short term surplus. This condition exists mainly because of low regulations about the matter as well as the low awareness of financial institutions about the importance of money market.

### **5.3 Recommendation**

Analysis of data, findings and conclusion make clear vision about the IPO and some about interbank rate. From the analysis and findings, some recommend points be here;

- Shown much faith on IPOs from non-financial sector. This must be due to the fact that the non-financial companies have been performing poorly since last decade or so while financial sector has been doing well. In this perspective, companies from non-financial sector are recommended that before going for IPO, they should inform public about their worthiness and regulatory body along with government are recommended to come up with schemes which will attract good companies belonging to non-financial sector to go for IPO.
- 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.
- 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.
- As investment banker play a vital role in the IPO process, they should try to give more transparent, fast, hassles free service so that more public involve in the IPO.
- Before investing in any company, all the investors must go through that company's financial details, prospectus, or they will be in difficulty if only go with the market rumors.

- Most underwriters target institutional or wealthy investors in IPO distribution, which is ethically as well as logically very wrong. The allotment process must be pro-rata basis rather than lucky-draw, so that all investors may get share.
- Investors are becoming speculators rather than rational investors due to asymmetric information. They should know the whole stock valuation process and only then initiate to invest.
- While choosing the issue Manager Company should choose that are in which general investors could believe fairly.
- Application from each corner of the country should be asked so that all interested candidates could apply. As it is found that most of the IPOs are concentrated in the valley only.

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# APPENDICES

## Appendix – 1

### Questionnaire

Dear respondents I will be Very grateful if you kindly fill-up this questionnaire which is for the requirement of the Master Degree of Business Studies (M.B.S.). The information you provide hereby will be confidential and be solely used for this research purpose.

1. Have you ever heard about initial public offering?
  - a) Yes, of Course
  - b) A Little Heard
  - c) Seen in Paper and Book
  - d) Never Heard
  
2. Have you ever heard about interbank rate?
  - a) Yes, of Course
  - b) A little Heard
  - c) Seen in Paper and Book
  - d) Never Heard
  
3. Would you like to invest in initial public offering?
  - a) Yes, Even with Loan
  - b) Depends in the Sector
  - c) If had Money
  - d) Not Interested
  
4. How do you come to know about IPO of any Company?
  - a) Friends and Relatives
  - b) Media
  - c) Issue Manager/Company
  - d) Other
  
5. What expectation led you to invest in IPO?
  - a) Cash Dividend
  - b) Stock Share/ Bonus Share
  - c) Right Share
  - d) Other
  
6. In which sector do you preferred to invest at the time of IPO?
  - a) Banking Sector
  - b) Development Bank Sector
  - c) Insurance Company Sector
  - d) Non-financial Sector
  - e) Non-financial Sector

- c) Finance Company Sector
7. In which market do you like to invest?
- a) Primary Market
  - b) Secondary Market
8. Have you aware about the financial performance of the company at the time of investing in initial public offering?
- a) Very Much
  - b) Moderate
  - c) Little
  - d) Not at all
9. In your view, what is the main cause of over subscription in initial public offering?
- a) Lack of Investment Opportunities
  - b) Low Interest Rate on Bank
  - c) High Future Return
  - d) Company Image

**Respondent's Profile**

**Name:** .....

**Occupation:** .....

**Address:** .....

**Appendix – 2**

**Issue Amount of Ordinary Share and Weighted Average Interbank Rate**

<i>FY</i>	<i>IAOS</i> ( <i>X</i> )	<i>WAIR</i> ( <i>Y</i> )	$(X - \bar{X})$	$(X - \bar{X})^2$	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$	$(X - \bar{X})(Y - \bar{Y})$
1999/00	202	4.2	-390.6	152568.4	0.5	0.25	-195.3
2000/01	279	4.1	-313.6	98345	0.4	0.16	-125.44
2001/02	315	4.2	-277.6	77061.8	0.5	0.25	-138.8
2002/03	394	3.6	-198.6	39442	-0.1	0.01	19.86
2003/04	658	3.0	65.4	4277.2	-0.7	0.49	-45.78
2004/05	377	3.4	-215.6	46483.4	-0.3	0.09	64.68
2005/06	580	2.5	-12.6	158.8	-1.2	1.44	15.12
2006/07	380	2.7	-212.6	45198.8	-1	1	212.6
2007/08	925	4.2	332.4	110489.8	0.5	0.25	166.2
2008/09	1816	5.1	1223.4	1496707.6	1.4	1.96	1712.76
	$\sum X$ = 5926	$\sum Y = 37$		$\sum (X - \bar{X})^2$ = 2070732.8		$\sum (Y - \bar{Y})^2$ = 5.90	$\sum (X - \bar{X})(Y - \bar{Y})$ = 1685.9

We have,

$$\bar{X} = \frac{\sum X}{n}$$

$$= \frac{5926}{10} = 59.26 \quad = 59.3$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{37}{10} = 3.70$$

Again we have,

Correlation between X and Y is denoted by

$$r_{xy} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{1685.90}{\sqrt{2070732.8} \sqrt{5.90}} = \frac{1685.9}{3495.33} = 0.482$$

### Appendix – 3

#### Average Subscription Times of OS and Weighted Average Interbank Rate

FY	ASTOS (X <sub>1</sub> )	WAIR (X <sub>2</sub> )	(X - $\bar{X}$ )	(X - $\bar{X}$ ) <sup>2</sup>	(Y - $\bar{Y}$ )	(Y - $\bar{Y}$ ) <sup>2</sup>	(X - $\bar{X}$ )(Y - $\bar{Y}$ )
1999/00	8.1	4.2	-10.6	112.36	0.5	0.25	-5.3
2000/01	29.7	4.1	11	121	0.4	0.16	4.4
2001/02	8.2	4.2	-10.5	110.25	0.5	0.25	-5.25
2002/03	11	3.6	-7.7	59.29	-0.1	0.01	0.77
2003/04	7.9	3.0	-10.8	116.64	-0.7	0.49	7.56
2004/05	4.9	3.4	-13.8	190.44	-0.3	0.09	4.14
2005/06	8.1	2.5	-10.6	112.36	-1.2	1.44	12.72
2006/07	40.1	2.7	21.4	457.96	-1	1	-21.40
2007/08	45.6	4.2	26.9	723.61	0.5	0.25	13.45
2008/09	23.2	5.1	4.5	20.25	1.4	1.96	6.30
	$\sum X$ =186.8	$\sum Y=37$		$\sum (X - \bar{X})^2$ = 2024.16		$\sum (Y - \bar{Y})^2$ = 5.90	$\sum (X - \bar{X})(Y - \bar{Y})$ = 17.39

We have,

$$\bar{X} = \frac{\sum X}{n}$$

$$= \frac{186.8}{10} = 18.68 = 18.7$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{37}{10} = 3.70$$

Again we have,

Correlation between X and Y is denoted by

$$r_{xy} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{17.39}{\sqrt{2024.16} \sqrt{5.90}} = \frac{17.39}{44.99 \times 2.43} = 0.16$$

**Appendix – 4**  
**Processing of Primary Data**

<b>Knowledge about IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Yes, of course	120	66.67
b	A little heard	30	17.22
c	Seen in paper and book	22	12.22
d	Never heard	7	3.89
<b>Total</b>		180	100

<b>Knowledge about Interbank Rate</b>		<b>Number</b>	<b>Percentage</b>
a	Yes, of course	6	3.33
b	A little heard	18	10.00
c	Seen in paper and book	13	7.22
d	Never heard	143	79.44
<b>Total</b>		180	100

<b>Willing to Invest in IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Yes, even with the loan as well	38	21.11
b	Depends in the sector	73	40.56
c	If had money	52	28.89
d	Not interested	17	9.44
<b>Total</b>		180	100

<b>Sources of Information about IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Friends and relatives	52	28.89
b	Media	101	56.11
c	Issue manager/ company	8	4.44

d	Other	19	10.56
<b>Total</b>		180	100

<b>Expectation Behind Investment in IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Cash dividend	43	23.89
b	Stock dividend (Bonus share)	73	40.56
c	Right share	45	25.00
d	Other	19	10.55
<b>Total</b>		180	100

<b>Sector Preference for Investment</b>		<b>Number</b>	<b>Percentage</b>
a	Banking sector	102	56.67
b	Development sector	39	21.67
c	Finance company sector	19	10.56
d	Insurance company sector	14	7.77
e	Non-financial sector	6	3.33
<b>Total</b>		180	100

<b>Preference of Market for Investment</b>		<b>Number</b>	<b>Percentage</b>
a	Primary market	140	77.78
b	Secondary market	40	22.22
<b>Total</b>		180	100

<b>Awareness about Performance of Issuing Company</b>		<b>Number</b>	<b>Percentage</b>
a	Very much	17	9.44
b	Moderate	74	41.11
c	Little	43	23.89
d	Not at all	46	25.56
<b>Total</b>		180	100

<b>Causes of Oversubscription in IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Lack of investment opportunities	57	31.67
b	Low interest rate on bank	43	23.88
c	High future return	61	33.89
d	Company image	19	10.56
<b>Total</b>		180	100

**Appendix – 5**

(Rs in Million)

<b>S.N.</b>	<b>Issuer</b>	<b>Types of Securities</b>	<b>Issue Amount</b>	<b>Issue Date</b>	<b>Subs. Times</b>
1	Nepal Med. Ltd.	Ordinary Share	2.70	1993	1.11
2	Nepal Share Market & Finance Ltd.	Ordinary Share	4.00	1993	4.95
3	Himalayan General Insurance Ltd.	Ordinary Share	12.00	1993	1.88
4	Nimrod Pharmaceutical Co. Ltd.	Ordinary Share	18.00	1993	1.88
5	Harisiddhi Brick & Tile Factory Ltd.	Ordinary Share	53.20	1993	2.90
6	Nepal Lever Ltd.	Ordinary Share	13.80	1994	6.53
7	Necon Air Ltd.	Ordinary Share	16.50	1994	3.57
8	Necon Air Ltd.	Pref. Share	14.00	1994	-
9	United Insurance Co. Ltd.	Ordinary Share	24.00	1994	4.40
10	Nepal SBI Bank Ltd.	Ordinary Share	36.00	1994	14.05
11	People Finance Ltd.	Ordinary Share	9.80	1994	16.21
12	Annapurna Finance Ltd.	Ordinary Share	2.00	1994	28.04
13	Nepal Film Dev. Co. Ltd.	Ordinary Share	21.90	1994	5.06
14	Agro Nepal Ltd.	Ordinary Share	9.00	1994	8.60
15	Birat Shoe Ltd.	Ordinary Share	5.00	1994	3.94
16	Birat Shoe Ltd.	Pref. Share	2.50	1994	-
17	Premier Insurance Co. Ltd.	Ordinary Share	12.00	1994	19.36
18	Ace Laboratories (Nepal) Ltd.	Ordinary Share	12.26	1994	1.00
19	Everest Insurance Co. Ltd.	Ordinary Share	12.00	1994	10.85
20	Nepal Bangladesh Bank Ltd.	Ordinary Share	36.00	1994	22.20
21	Himgiri Textile Industries Ltd.	Ordinary Share	19.20	1994	1.57
22	Balaju Textile Industries Ltd.	Ordinary Share	7.50	1994	1.00
23	Kathmandu Finance Ltd.	Ordinary Share	8.00	1995	7.72
24	Leatherage Bansbari Tannery & Shoe Factory Ltd.	Ordinary Share	15.00	1995	0.71
25	Citizen Investment Trust.	Ordinary Share	16.00	1995	3.31
26	Everest Bank Ltd.	Ordinary Share	36.00	1995	5.14
27	Nepal Awas Bikas Bit. Co. Ltd.	Ordinary Share	20.00	1995	0.95
28	Narayani Finance Co. Ltd.	Ordinary Share	4.00	1995	2.20
29	Nepal Finance & Savings Co. Ltd.	Right Share	2.00	1995	-
30	Brikuti Pulp & Paper Nepal Ltd.	Ordinary Share	105.00	1996	1.04
31	Colour Scan Nepal Ltd.	Ordinary Share	14.34	1996	0.07
32	HISEF Finance Ltd.	Ordinary Share	24.00	1996	1.04
33	Yeti Finance Co. Ltd.	Ordinary Share	8.00	1996	1.06

34	Ace Finance Co. Ltd.	Ordinary Share	12.00	1996	1.21
35	Universal Finance & Capital Market Ltd.	Ordinary Share	15.00	1996	0.45
36	Fleur Himalayan Co. Ltd.	Ordinary Share	12.28	1996	0.63
37	Samjhana Finance Co. Ltd.	Ordinary Share	10.12	1996	0.89
38	Seti Cigarette Factory Ltd.	Right Share	67.00	1996	-
39	Nepal Housing & Merchant Finance Ltd.	Ordinary Share	12.00	1996	1.17
40	Bank of Kathmandu Ltd.	Ordinary Share	45.00	1996	5.36
41	Himalayan General Insurance Co. Ltd.	Right Share	30.00	1996	-
42	Bottlers Nepal Ltd.	Right Share	225.20	1997	-
43	Nepal Share Market & Finance Ltd.	Right Share	20.00	1997	-
44	Nepal Bitumin & Barrel Udyog Ltd.	Ordinary Share	7.40	1997	0.99
45	General Finance Ltd.	Ordinary Share	8.00	1997	1.00
46	Shreeram Sugar Mills Ltd.	Ordinary Share	46.50	1997	0.53
47	Shreeram Sugar Mills Ltd.	Debenture	93.00	1997	-
48	Neco Insurance Ltd.	Ordinary Share	20.00	1997	1.21
49	Nepal United Co. Ltd.	Right Share	3.01	1997	-
50	Nepal Bank Ltd.	Right Share	241.95	1997	-
51	Mahalaxmi Finance Ltd.	Ordinary Share	10.00	1998	1.89
52	Paschimanchal finance Ltd	Ordinary Share	8.00	1998	1.71
53	Annapurna Finance Ltd.	Right Share	5.00	1998	-
54	Lalipur Finance Co. Ltd	Ordinary Share	9.50	1998	1.47
55	Goodwill Finance & Inv. Co. Ltd.	Ordinary Share	10.00	1998	1.16
56	Alliance Insurance Co. Ltd.	Ordinary Share	20.00	1998	0.63
57	Taragaon Regency Hotels Ltd.	Ordinary Share	120.00	1999	2.47
58	Taragaon Regency Hotels Ltd.	Pref. Share	80.00	1999	-
59	Pokhara Finance Ltd.	Ordinary Share	8.00	1999	2.66
60	Nepal Share Market Ltd.	Right Share	30.00	1999	-
61	Universal Finance & Capital Market Ltd.	Ordinary Share	3.26	1999	4.52
62	Nepal Industrial & Commercial Bank Ltd.	Ordinary Share	175.00	1999	8.16
63	Necon Air Ltd.	Right Share	89.60	2000	-
64	Lumbini Fin. & Leasing Co. Ltd.	Ordinary Share	24.00	2000	11.56
65	Paschimanchal finance Ltd	Right Share	20.00	2000	-
66	Ace Finance Co. Ltd.	Right Share	15.00	2000	-
67	Oriental Hotels Ltd.	Ordinary Share	150.00	2000	6.29
68	Sagarmatha Insurance Co. Ltd.	Ordinary Share	10.20	2000	33.22
69	Siddhartha Finance Ltd.	Ordinary Share	8.00	2000	17.72
70	Nepal Merchant Banking & Finance Ltd.	Ordinary Share	50.00	2001	47.05
71	Alpic Everest Finance Ltd.	Ordinary Share	5.00	2001	42.18
72	Nepal Bangladesh Finance & Leasing Co. Ltd.	Ordinary Share	7.50	2001	32.57

73	Narayani Finance Ltd.	Right Share	12.58	2001	-
74	Nepal Development Bank Ltd.	Ordinary Share	48.00	2001	29.06
75	Everest Bank Ltd.	Right Share	119.21	2001	-
76	Bank of Kathmandu Ltd.	Right Share	234.00	2001	-
77	Himalayan Distillery Ltd.	Ordinary Share	173.46	2001	0.11
78	Nepal Housing & Merchant Finance Ltd.	Right Share	15.00	2002	-
79	Union Finance Co. Ltd.	Ordinary Share	24.00	2002	8.78
80	Development Credit Bank Ltd.	Ordinary Share	48.00	2002	14.10
81	Ace Finance Co. Ltd.	Right Share	45.00	2002	-
82	Nepal SBI Bank Ltd.	Right Share	287.87	2002	-
83	NIDC Capital Markets Ltd.	Right Share	40.00	2002	-
84	United Finance Ltd.	Ordinary Share	24.00	2002	10.56
85	Himalayan Bank Ltd.	Debenture	260.00	2002	7.56
86	Nepal Life Insurance Co. Ltd.	Ordinary Share	50.00	2002	-
87	Everest Bank Ltd.	Pref. Share	140.00	2002	-
88	International Leasing & Finance Ltd.	Ordinary Share	30.00	2002	21.71
89	Nirdhan Utthan Bank Ltd.	Ordinary Share	3.30	2002	3.88
90	Life Insurance Corporation Ltd.	Ordinary Share	20.00	2002	17.43
91	Nepal Sri Lanka Merchant Bank Ltd.	Ordinary Share	10.00	2002	6.15
92	Shree Investment & Finance Co. Ltd.	Ordinary Share	16.00	2002	18.69
93	Gorkha Finance Ltd.	Ordinary Share	10.00	2002	8.64
94	Janaki Finance Co. Ltd.	Ordinary Share	8.00	2002	15.84
95	Nepal Investment Bank Ltd.	Right Share	57.24	2002	-
96	Central Finance Co. Ltd.	Ordinary Share	8.00	2002	8.52
97	Nabadurga Finance Co. Ltd.	Ordinary Share	8.00	2002	14.52
98	Premier Finance Co. Ltd.	Ordinary Share	8.00	2003	10.26
99	Machhapuchere Bank Ltd.	Ordinary Share	165.00	2003	1.98
100	Nepal Share Market & Finance Ltd.	Right Share	60.00	2003	-
101	Mahalaxmi Finance Ltd.	Right Share	25.00	2003	-
102	N. B. Insurance Co. Ltd.	Ordinary Share	20.00	2003	1.33
103	People Finance Ltd.	Right Share	20.00	2003	-
104	Butwal Finance Ltd.	Ordinary Share	20.00	2003	8.04
105	Om Finance Co. Ltd.	Ordinary Share	8.00	2003	16.38
106	Laxmi Bank Ltd.	Ordinary Share	192.50	2003	2.51
107	Standard Finance Ltd.	Ordinary Share	24.00	2003	3.63
108	Alpic Everest Finance Ltd.	Right Share	20.00	2003	-
109	Nepal Investment Bank Ltd.	Debenture	300.00	2003	-
110	Cosmic Merchant Banking & Finance Ltd.	Ordinary Share	24.00	2003	7.18
111	Kumari Bank Ltd.	Ordinary Share	150.00	2003	8.11

112	Siddhartha Finance Ltd.	Right Share	20.00	2003	-
113	Fewa Finance Co. Ltd.	Ordinary Share	8.00	2004	23.55
114	Nepal Credit & Commercial Bank Ltd.	Ordinary Share	210.00	2004	1.22
115	Prudential Insurance Co. Ltd.	Ordinary Share	20.00	2004	9.56
116	Nepal Bangladesh Finance & Leasing Co. Ltd.	Right Share	30.00	2004	-
117	Chhimek Bikas Bank Ltd.	Ordinary Share	3.00	2004	1.39
118	Pachhimanchal Dev. Bank Ltd.	Ordinary Share	6.00	2004	20.23
119	Kist Merchant Banking & Finance Ltd.	Ordinary Share	20.00	2004	1.80
120	Nepal Bangladesh Bank Ltd.	Right Share	359.92	2004	-
121	Lumbini Bank Ltd.	Ordinary Share	150.00	2004	7.21
122	World Merchant Banking & Finance Ltd.	Ordinary Share	24.00	2004	9.65
123	National Hydro Power Co. Ltd.	Ordinary Share	140.00	2004	0.22
124	Annapurna Finance Ltd.	Right Share	20.00	2004	-
125	Birjung Finance Ltd.	Ordinary Share	24.00	2004	7.04
126	Deprosc Dev. Bank Ltd.	Ordinary Share	3.48	2005	2.59
127	Everest Bank Ltd.	Debenture	300.00	2005	-
128	Nirdhan Utthan Bank Ltd.	Right Share	15.00	2005	-
129	Nepal SBI Bank Ltd.	Right Share	215.29	2005	-
130	Nepal Investment Bank Ltd.	Right Share	295.29	2005	-
131	Everest Finance Ltd.	Ordinary Share	8.00	2005	5.40
132	Capital Merchant Banking & Finance Ltd.	Ordinary Share	28.00	2005	2.02
133	National Finance Co. Ltd.	Right Share	43.20	2005	-
134	Chilime Hydro Power Co. Ltd.	Ordinary Share	237.41	2005	5.10
135	Development Credit Bank Ltd.	Right Share	80.00	2005	-
136	Prudential Bittiya Santha Ltd.	Ordinary Share	24.50	2005	1.13
137	Siddhartha Bank Ltd.	Ordinary Share	150.00	2005	18.65
138	Bank of Kathmandu Ltd.	Debenture	200.00	2005	-
139	Srijana Finance Ltd.	Ordinary Share	4.00	2005	1.21
140	Kumari Bank Ltd.	Right Share	125.00	2005	-
141	Gandaki Dev. Finance Institution Ltd.	Ordinary Share	15.00	2006	3.98
142	Fewa Finance Co. Ltd.	Right Share	30.00	2006	-
143	Business Dev. Financial Institution Ltd.	Ordinary Share	12.00	2006	21.88
144	Om Finance Co. Ltd.	Right Share	30.00	2006	-
145	Royal Merchant Banking & Finance Ltd.	Ordinary Share	17.50	2006	2.83
146	Goodwill Finance Ltd.	Right Share	25.00	2006	-
147	Janaki Finance Ltd.	Right Share	10.00	2006	-
148	Central Finance Co. Ltd.	Right Share	12.00	2006	-
149	Taragaun Regency Hotels Ltd.	Right Share	446.45	2006	-
150	Bhajuranta Finance & Saving Co. Ltd.	Ordinary Share	10.50	2006	2.74

151	Guheswori Merchant Banking & Finance Ltd.	Ordinary Share	20.00	2006	2.13
152	Siddhartha Bikas Bank Ltd.	Ordinary Share	20.00	2006	2.22
153	IME Financial Institution Ltd.	Ordinary Share	17.50	2006	4.58
154	Shikhar Insurance Co. Ltd.	Ordinary Share	25.00	2006	43.76
155	Bhrikuti Development Bank Ltd.	Ordinary Share	6.42	2006	2.14
156	Machhapuchere Bank Ltd.	Right Share	165.00	2006	-
157	Kist Merchant Banking & Finance Ltd.	Right Share	50.00	2006	-
158	Nepal Share Market & Finance Ltd.	Right Share	40.00	2006	-
159	Nepal Investment Bank Ltd.	Debenture	250.00	2006	-
160	NIC Bank Ltd.	Debenture	200.00	2006	-
161	Patan Finance Ltd.	Ordinary Share	20.00	2006	1.16
162	Nepal SBI Bank Ltd.	Debenture	200.00	2006	-
163	Pokhara Finance Ltd.	Right Share	20.00	2006	-
164	Narayani Industrial Bikas Bank Ltd.	Ordinary Share	6.00	2006	6.14
165	Sanima Bikas Bank Ltd.	Ordinary Share	96.00	2006	40.31
166	Lumbini Bank Ltd.	Right Share	100.00	2006	-
167	Paschimanchal Bikas Bank Ltd.	Right Share	28.00	2006	-
168	Bageswori Bikas Bank Ltd.	Ordinary Share	9.00	2006	4.48
169	Alpic Everest Finance Ltd.	Right Share	20.00	2006	-
170	People Finance Ltd.	Right Share	40.00	2006	-
171	Sahayogi Bikas Bank Ltd.	Ordinary Share	6.00	2006	19.17
172	Chhimek Bikas Bank Ltd.	Right Share	20.00	2006	-
173	Nepal Development Bank Ltd.	Right Share	160.00	2006	-
174	Gorkha Development Bank Ltd.	Ordinary Share	96.00	2006	108.32
175	Ace Finance Co. Ltd.	Right Share	194.00	2007	-
176	Navadurga Finance Co. Ltd.	Right Share	11.00	2007	-
177	Annapurna Finance Ltd.	Right Share	80.00	2007	-
178	Emporial Financial Institution Ltd.	Ordinary Share	19.50	2007	25.68
179	Swabalamban Bikas Bank Ltd.	Ordinary Share	6.00	2007	96.23
180	Himchuli Bikas Bank Ltd.	Ordinary Share	12.00	2007	133.62
181	ICFC Financial Institution Ltd.	Ordinary Share	24.40	2007	35.06
182	Annapurna Bikas Bank Ltd.	Ordinary Share	29.40	2007	21.94
183	Laxmi Bank Ltd.	Right Share	122.40	2007	-
184	Civil Merchant Financial Institution Ltd.	Ordinary Share	20.00	2007	15.00
185	Capital Merchant Financial institutions Ltd.	Right Share	84.00	2007	-
186	Yeti Finance Ltd.	Right Share	6.30	2007	-
187	Business Development Bank Ltd.	Right Share	30.00	2007	-
188	Nepal Express Finance Ltd.	Ordinary Share	15.00	2007	7.82
189	Kist Merchant Banking & Finance Ltd.	Right Share	100.00	2007	-

190	Siddhartha Bank Ltd.	Right Share	100.00	2007	-
191	Biratlaxmi Bikas Bank Ltd.	Ordinary Share	20.00	2007	13.40
192	Nepal Investment Bank Ltd.	Debenture	250.00	2007	-
193	Malika Bikas Bank Ltd.	Ordinary Share	15.00	2007	54.84
194	Lumbini Bank Ltd.	Right Share	150.00	2007	-
195	Excel Development Bank Ltd.	Ordinary Share	6.00	2007	18.97
196	Everest Bank Ltd.	Pref. Share	400.00	2007	-
197	Merchant Finance Co. Ltd.	Ordinary Share	12.00	2007	-
198	Lumbini General Insurance Co. Ltd.	Ordinary Share	25.00	2007	71.73
199	Siddhartha Insurance Ltd.	Ordinary Share	25.00	2007	60.63
200	Infrastructure Dev. Bank Ltd.	Ordinary Share	24.00	2007	93.55
201	Kuber Merchant Bittiya Santha Ltd.	Ordinary Share	22.50	2007	44.47
202	Prabhu Finance Co. Ltd.	Ordinary Share	48.00	2007	77.30
203	Agriculture Dev. Bank Ltd.	Ordinary Share	125.00	2007	-
204	Nepal Dev. & Employment Bank Ltd.	Ordinary Share	128.00	2008	35.05
205	Sikhar Bittiya Santha Ltd.	Ordinary Share	20.00	2008	26.71
206	Clean Energy Dev. Bank Ltd.	Ordinary Share	96.00	2008	36.46
207	Subechha Dev. Bank Ltd.	Ordinary Share	12.00	2008	61.83
208	Kaski Finance Ltd.	Ordinary Share	20.00	2008	21.93
209	Lord Buddha Financial Institutions Ltd.	Ordinary Share	22.50	2008	16.73
210	Sagarmatha Merchant Banking & Finance Ltd.	Ordinary Share	20.00	2008	25.78
211	Reliable Inv. Financial Institutions Ltd.	Ordinary Share	24.80	2008	31.52
212	Global Bank Ltd.	Ordinary Share	300.00	2008	34.25
213	Nepal Electricity Corporation	Debenture	1500.00	2008	-
214	Kumari Bank Ltd.	Debenture	400.00	2008	-
215	Himalayan Bank Ltd.	Debenture	500.00	2008	-
216	Nepal Investment Bank Ltd.	Debenture	250.00	2008	-
217	Nabil Bank Ltd.	Debenture	300.00	2008	-
218	Nepal Investment Bank Ltd.	Right Share	201.30	2008	-
219	Siddhartha Bank Ltd.	Right Share	138.00	2008	-
220	NIC Bank Ltd.	Right Share	158.40	2008	-
221	Lumbini Bank Ltd.	Right Share	250.00	2008	-
222	Kumari Bank Ltd.	Right Share	180.00	2008	-
223	Laxmi Bank Ltd.	Right Share	183.00	2008	-
224	NCC Bank Ltd.	Right Share	700.00	2008	-
225	Paschimanchal Bikas Bank Ltd.	Right Share	47.50	2008	-
226	Bhrikuti Bikas Bank Ltd.	Right Share	30.00	2008	-
227	Development Credit Bank Ltd.	Right Share	806.40	2008	-
228	Siddhartha Bikas Bank Ltd.	Right Share	50.00	2008	-

229	Sanima Bikas Bank Ltd.	Right Share	64.00	2008	-
230	Ace Development Bank Ltd.	Right Share	96.00	2008	-
231	Gorkha Bikas Bank Ltd.	Right Share	160.00	2008	-
232	Business Development Bank Ltd.	Right Share	150.00	2008	-
233	Himchuli Bikas Bank Ltd.	Right Share	60.00	2008	-
234	Annapurna Bikas Bank Ltd.	Right Share	150.00	2008	-
235	Sahayogi Bikas Bank Ltd.	Right Share	10.00	2008	-
236	Capital Merchant Banking & Finance Ltd.	Right Share	161.00	2008	-
237	Premier Finance Co. Ltd.	Right Share	14.40	2008	-
238	Nirdhan Utthan Bank Ltd.	Right Share	39.50	2008	-
239	Central Finance Ltd.	Right Share	24.00	2008	-
240	Nepal Merchant Banking & Finance Ltd.	Right Share	800.00	2008	-
241	Nepal Share Market & Finance Ltd.	Right Share	240.00	2008	-
242	IME Financial Institutions Ltd.	Right Share	50.00	2008	-
243	Prudential Bittiya Sanstha Ltd.	Right Share	50.00	2008	-
244	Paschimanchal Finance Co. Ltd.	Right Share	27.80	2008	-
245	Kist Merchant Banking & Finance Ltd.	Right Share	600.00	2008	-
246	Goodwill Finance Ltd.	Right Share	50.00	2008	-
247	United Finance Ltd.	Right Share	75.00	2008	-
248	Nepal Express Finance Ltd.	Right Share	30.00	2008	-
249	Royal Merchant Banking & Finance Ltd.	Right Share	60.60	2008	-
250	ICFC Bittiya Sanstha Ltd.	Right Share	224.80	2008	-
251	International Leasing & Finance Ltd.	Right Share	504.00	2008	-
252	Nepal Housing & Merchant Finance Ltd.	Right Share	80.40	2008	-
253	Shree Investment Finance Ltd.	Right Share	16.80	2008	-
254	Standard Finance Ltd.	Right Share	72.60	2008	-
255	Gorkha Finance Ltd.	Right Share	30.00	2008	-
256	Guheswori Merchant Banking & Finance Ltd.	Right Share	37.00	2008	-
257	Nepal Awas Bikas Bitta Co. Ltd.	Right Share	70.50	2008	-
258	Sagarmatha Insurance Co. Ltd.	Right Share	23.60	2008	-
259	Premier Insurance Co. Ltd.	Right Share	39.00	2008	-
260	Himalayan General Insurance Ltd.	Right Share	37.80	2008	-
261	Citizen Bank International Ltd.	Ordinary Share	300.00	2009	20.98
262	Bank Of Asia Nepal Ltd.	Ordinary Share	300.00	2009	18.90
263	Sunrise Bank Ltd.	Ordinary Share	375.00	2009	26.75
264	Prime Commercial Bank Ltd.	Ordinary Share	300.00	2009	29.85
265	Tribeni Bikas Bank Ltd.	Ordinary Share	15.00	2009	-
266	Pashupati Bikas Bank Ltd.	Ordinary Share	80.00	2009	-
267	Madhyamanchal Gramin Bikas Bank Ltd.	Ordinary Share	30.00	2009	15.26

268	Vibor Bikas Bank Ltd.	Ordinary Share	265.20	2009	7.18
269	Public Development Bank Ltd.	Ordinary Share	60.00	2009	28.26
270	Api Finance Ltd.	Ordinary Share	18.00	2009	26.24
271	Crystal Finance Ltd.	Ordinary Share	21.00	2009	31.06
272	Arun Valley Hydropower Dev. Co. Ltd.	Ordinary Share	51.50	2009	27.74
273	Siddhartha Bank Ltd.	Debenture	400.00	2009	-
274	Laxmi Bank Ltd.	Debenture	350.00	2009	-
275	Machhapuchere Bank Ltd.	Right Share	493.00	2009	-
276	Kist Bank Ltd.	Right Share	1200.00	2009	-
277	Nepal Bangladesh Bank Ltd.	Right Share	1116.89	2009	-
278	Nepal Investment Bank Ltd.	Right Share	803.03	2009	-
279	NMB Bank Ltd.	Right Share	330.00	2009	-
280	DCBL Bank Ltd.	Right Share	553.73	2009	-
281	Gandaki Development Bank Ltd.	Right Share	50.00	2009	-
282	Swabalamwan Bikas Bank Ltd.	Right Share	35.00	2009	-
283	Bageswori Bikas Bank Ltd.	Right Share	15.00	2009	-
284	Nepal Bikas Bank Ltd.	Right Share	320.00	2009	-
285	Infrastructure Dev. Bank Ltd.	Right Share	240.00	2009	-
286	Siddhartha Dev. Bank Ltd.	Right Share	537.86	2009	-
287	Sanima Bikas Bank Ltd.	Right Share	384.00	2009	-
288	Ace Development Bank Ltd.	Right Share	292.86	2009	-
289	Narayani Dev. Bank Ltd.	Right Share	10.00	2009	-
290	Gorkha Development Bank Ltd.	Right Share	120.00	2009	-
291	Nepal Dev. & Employment Promotion Bank Ltd.	Right Share	160.00	2009	-
292	Bhrikuti Bikas Bank Ltd.	Right Share	141.00	2009	-
293	Excel Development Bank Ltd.	Right Share	60.00	2009	-
294	Kathmandu Finance Ltd.	Right Share	37.95	2009	-
295	Narayani Finance Ltd.	Right Share	150.07	2009	-
296	Yeti Finance Ltd.	Right Share	31.25	2009	-
297	Om Finance Co. Ltd.	Right Share	14.00	2009	-
298	Union Finance Ltd.	Right Share	72.52	2009	-
299	Srijana Finance Ltd.	Right Share	14.00	2009	-
300	National Finance Ltd.	Right Share	62.80	2009	-
301	Nepal Srilanka Merchant Bank Ltd.	Right Share	200.00	2009	-
302	People Finance Ltd.	Right Share	168.00	2009	-
303	Pokhara Finance Ltd.	Right Share	180.00	2009	-
304	IME Financial Institutions Ltd.	Right Share	125.00	2009	-
305	Samjhana Finance Ltd.	Right Share	27.83	2009	-
306	Universal Finance Ltd.	Right Share	60.23	2009	-

307	Civil Merchant Bittiya Sansthan Ltd.	Right Share	50.00	2009	-
308	Premier Finance Ltd.	Right Share	47.52	2009	-
309	Imperial Finance Ltd.	Right Share	50.00	2009	-
310	World Merchant Banking & Finance Ltd.	Right Share	72.00	2009	-
311	Central Finance Ltd.	Right Share	25.39	2009	-
312	Standard Finance Ltd.	Right Share	834.90	2009	-
313	Lumbini Finance & Leasing Co. Ltd.	Right Share	45.00	2009	-
314	Navadurga Finance Co. Ltd.	Right Share	54.71	2009	-
315	Prabhu Finance Ltd.	Right Share	80.00	2009	-
316	Patan Finance Ltd.	Right Share	50.00	2009	-
317	Everest Finance Ltd.	Right Share	20.00	2009	-
318	Nepal Share Market & Finance Ltd.	Right Share	1567.73	2009	-
319	Nepal Express Finance Ltd.	Right Share	24.00	2009	-
320	General Finance Ltd.	Right Share	2424.18	2009	-
321	Neco Insurance Co. Ltd.	Right Share	55.00	2009	-
322	United Insurance Co (Nepal) Ltd.	Right Share	28.80	2009	-
323	National Life Insurance Co. Ltd.	Right Share	132.00	2009	-
324	National Hydropower Co. Ltd.	Right Share	694.94	2009	-

Source: SEBON Annual Reports

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# APPENDICES

## Appendix – 1

### Questionnaire

Dear respondents I will be Very grateful if you kindly fill-up this questionnaire which is for the requirement of the Master Degree of Business Studies (M.B.S.). The information you provide hereby will be confidential and be solely used for this research purpose.

10. Have you ever heard about initial public offering?
- |                   |                           |
|-------------------|---------------------------|
| c) Yes, of Course | c) Seen in Paper and Book |
| d) A Little Heard | d) Never Heard            |
11. Have you ever heard about interbank rate?
- |                   |                           |
|-------------------|---------------------------|
| c) Yes, of Course | c) Seen in Paper and Book |
| d) A little Heard | d) Never Heard            |
12. Would you like to invest in initial public offering?
- |                          |                   |
|--------------------------|-------------------|
| c) Yes, Even with Loan   | c) If had Money   |
| d) Depends in the Sector | d) Not Interested |
13. How do you come to know about IPO of any Company?
- |                          |                          |
|--------------------------|--------------------------|
| c) Friends and Relatives | c) Issue Manager/Company |
| d) Media                 | d) Other                 |
14. What expectation led you to invest in IPO?
- |                             |                |
|-----------------------------|----------------|
| c) Cash Dividend            | c) Right Share |
| d) Stock Share/ Bonus Share | d) Other       |
15. In which sector do you preferred to invest at the time of IPO?
- |                            |                             |
|----------------------------|-----------------------------|
| d) Banking Sector          | d) Insurance Company Sector |
| e) Development Bank Sector | e) Non-financial Sector     |

f) Finance Company Sector

16. In which market do you like to invest?

c) Primary Market

d) Secondary Market

17. Have you aware about the financial performance of the company at the time of investing in initial public offering?

c) Very Much

c) Little

d)

Moderate

d) Not at all

18. In your view, what is the main cause of over subscription in initial public offering?

c) Lack of Investment Opportunities

c) High Future Return

d) Low Interest Rate on Bank

d) Company Image

**Respondent's Profile**

**Name:** .....

**Occupation:** .....

**Address:** .....

**Appendix – 2**

**Issue Amount of Ordinary Share and Weighted Average Interbank Rate**

<i>FY</i>	<i>IAOS</i> ( <i>X</i> )	<i>WAIR</i> ( <i>Y</i> )	$(X - \bar{X})$	$(X - \bar{X})^2$	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$	$(X - \bar{X})(Y - \bar{Y})$
1999/00	202	4.2	-390.6	152568.4	0.5	0.25	-195.3
2000/01	279	4.1	-313.6	98345	0.4	0.16	-125.44
2001/02	315	4.2	-277.6	77061.8	0.5	0.25	-138.8
2002/03	394	3.6	-198.6	39442	-0.1	0.01	19.86
2003/04	658	3.0	65.4	4277.2	-0.7	0.49	-45.78
2004/05	377	3.4	-215.6	46483.4	-0.3	0.09	64.68
2005/06	580	2.5	-12.6	158.8	-1.2	1.44	15.12
2006/07	380	2.7	-212.6	45198.8	-1	1	212.6
2007/08	925	4.2	332.4	110489.8	0.5	0.25	166.2
2008/09	1816	5.1	1223.4	1496707.6	1.4	1.96	1712.76
	$\sum X$ = 5926	$\sum Y = 37$		$\sum (X - \bar{X})^2$ = 2070732.8		$\sum (Y - \bar{Y})^2$ = 5.90	$\sum (X - \bar{X})(Y - \bar{Y})$ = 1685.9

We have,

$$\bar{X} = \frac{\sum X}{n}$$

$$= \frac{5926}{10} = 59.26 \quad = 59.3$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{37}{10} = 3.70$$

Again we have,

Correlation between X and Y is denoted by

$$r_{xy} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{1685.90}{\sqrt{2070732.8} \sqrt{5.90}} = \frac{1685.9}{3495.33} = 0.482$$

### Appendix – 3

#### Average Subscription Times of OS and Weighted Average Interbank Rate

FY	ASTOS (X <sub>1</sub> )	WAIR (X <sub>2</sub> )	(X - $\bar{X}$ )	(X - $\bar{X}$ ) <sup>2</sup>	(Y - $\bar{Y}$ )	(Y - $\bar{Y}$ ) <sup>2</sup>	(X - $\bar{X}$ )(Y - $\bar{Y}$ )
1999/00	8.1	4.2	-10.6	112.36	0.5	0.25	-5.3
2000/01	29.7	4.1	11	121	0.4	0.16	4.4
2001/02	8.2	4.2	-10.5	110.25	0.5	0.25	-5.25
2002/03	11	3.6	-7.7	59.29	-0.1	0.01	0.77
2003/04	7.9	3.0	-10.8	116.64	-0.7	0.49	7.56
2004/05	4.9	3.4	-13.8	190.44	-0.3	0.09	4.14
2005/06	8.1	2.5	-10.6	112.36	-1.2	1.44	12.72
2006/07	40.1	2.7	21.4	457.96	-1	1	-21.40
2007/08	45.6	4.2	26.9	723.61	0.5	0.25	13.45
2008/09	23.2	5.1	4.5	20.25	1.4	1.96	6.30
	$\sum X$ =186.8	$\sum Y=37$		$\sum (X - \bar{X})^2$ = 2024.16		$\sum (Y - \bar{Y})^2$ = 5.90	$\sum (X - \bar{X})(Y - \bar{Y})$ = 17.39

We have,

$$\bar{X} = \frac{\sum X}{n}$$

$$= \frac{186.8}{10} = 18.68 = 18.7$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{37}{10} = 3.70$$

Again we have,

Correlation between X and Y is denoted by

$$r_{xy} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{17.39}{\sqrt{2024.16} \sqrt{5.90}} = \frac{17.39}{44.99 \times 2.43} = 0.16$$

**Appendix – 4**  
**Processing of Primary Data**

<b>Knowledge about IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Yes, of course	120	66.67
b	A little heard	30	17.22
c	Seen in paper and book	22	12.22
d	Never heard	7	3.89
<b>Total</b>		180	100

<b>Knowledge about Interbank Rate</b>		<b>Number</b>	<b>Percentage</b>
a	Yes, of course	6	3.33
b	A little heard	18	10.00
c	Seen in paper and book	13	7.22
d	Never heard	143	79.44
<b>Total</b>		180	100

<b>Willing to Invest in IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Yes, even with the loan as well	38	21.11
b	Depends in the sector	73	40.56
c	If had money	52	28.89
d	Not interested	17	9.44
<b>Total</b>		180	100

<b>Sources of Information about IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Friends and relatives	52	28.89
b	Media	101	56.11
c	Issue manager/ company	8	4.44

d	Other	19	10.56
<b>Total</b>		180	100

<b>Expectation Behind Investment in IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Cash dividend	43	23.89
b	Stock dividend (Bonus share)	73	40.56
c	Right share	45	25.00
d	Other	19	10.55
<b>Total</b>		180	100

<b>Sector Preference for Investment</b>		<b>Number</b>	<b>Percentage</b>
a	Banking sector	102	56.67
b	Development sector	39	21.67
c	Finance company sector	19	10.56
d	Insurance company sector	14	7.77
e	Non-financial sector	6	3.33
<b>Total</b>		180	100

<b>Preference of Market for Investment</b>		<b>Number</b>	<b>Percentage</b>
a	Primary market	140	77.78
b	Secondary market	40	22.22
<b>Total</b>		180	100

<b>Awareness about Performance of Issuing Company</b>		<b>Number</b>	<b>Percentage</b>
a	Very much	17	9.44
b	Moderate	74	41.11
c	Little	43	23.89
d	Not at all	46	25.56
<b>Total</b>		180	100

<b>Causes of Oversubscription in IPO</b>		<b>Number</b>	<b>Percentage</b>
a	Lack of investment opportunities	57	31.67
b	Low interest rate on bank	43	23.88
c	High future return	61	33.89
d	Company image	19	10.56
<b>Total</b>		180	100

**Appendix – 5**

(Rs in Million)

<b>S.N.</b>	<b>Issuer</b>	<b>Types of Securities</b>	<b>Issue Amount</b>	<b>Issue Date</b>	<b>Subs. Times</b>
1	Nepal Med. Ltd.	Ordinary Share	2.70	1993	1.11
2	Nepal Share Market & Finance Ltd.	Ordinary Share	4.00	1993	4.95
3	Himalayan General Insurance Ltd.	Ordinary Share	12.00	1993	1.88
4	Nimrod Pharmaceutical Co. Ltd.	Ordinary Share	18.00	1993	1.88
5	Harisiddhi Brick & Tile Factory Ltd.	Ordinary Share	53.20	1993	2.90
6	Nepal Lever Ltd.	Ordinary Share	13.80	1994	6.53
7	Necon Air Ltd.	Ordinary Share	16.50	1994	3.57
8	Necon Air Ltd.	Pref. Share	14.00	1994	-
9	United Insurance Co. Ltd.	Ordinary Share	24.00	1994	4.40
10	Nepal SBI Bank Ltd.	Ordinary Share	36.00	1994	14.05
11	People Finance Ltd.	Ordinary Share	9.80	1994	16.21
12	Annapurna Finance Ltd.	Ordinary Share	2.00	1994	28.04
13	Nepal Film Dev. Co. Ltd.	Ordinary Share	21.90	1994	5.06
14	Agro Nepal Ltd.	Ordinary Share	9.00	1994	8.60
15	Birat Shoe Ltd.	Ordinary Share	5.00	1994	3.94
16	Birat Shoe Ltd.	Pref. Share	2.50	1994	-
17	Premier Insurance Co. Ltd.	Ordinary Share	12.00	1994	19.36
18	Ace Laboratories (Nepal) Ltd.	Ordinary Share	12.26	1994	1.00
19	Everest Insurance Co. Ltd.	Ordinary Share	12.00	1994	10.85
20	Nepal Bangladesh Bank Ltd.	Ordinary Share	36.00	1994	22.20
21	Himgiri Textile Industries Ltd.	Ordinary Share	19.20	1994	1.57
22	Balaju Textile Industries Ltd.	Ordinary Share	7.50	1994	1.00
23	Kathmandu Finance Ltd.	Ordinary Share	8.00	1995	7.72
24	Leatherage Bansbari Tannery & Shoe Factory Ltd.	Ordinary Share	15.00	1995	0.71
25	Citizen Investment Trust.	Ordinary Share	16.00	1995	3.31
26	Everest Bank Ltd.	Ordinary Share	36.00	1995	5.14
27	Nepal Awas Bikas Bit. Co. Ltd.	Ordinary Share	20.00	1995	0.95
28	Narayani Finance Co. Ltd.	Ordinary Share	4.00	1995	2.20
29	Nepal Finance & Savings Co. Ltd.	Right Share	2.00	1995	-
30	Brikuti Pulp & Paper Nepal Ltd.	Ordinary Share	105.00	1996	1.04
31	Colour Scan Nepal Ltd.	Ordinary Share	14.34	1996	0.07
32	HISEF Finance Ltd.	Ordinary Share	24.00	1996	1.04
33	Yeti Finance Co. Ltd.	Ordinary Share	8.00	1996	1.06

34	Ace Finance Co. Ltd.	Ordinary Share	12.00	1996	1.21
35	Universal Finance & Capital Market Ltd.	Ordinary Share	15.00	1996	0.45
36	Fleur Himalayan Co. Ltd.	Ordinary Share	12.28	1996	0.63
37	Samjhana Finance Co. Ltd.	Ordinary Share	10.12	1996	0.89
38	Seti Cigarette Factory Ltd.	Right Share	67.00	1996	-
39	Nepal Housing & Merchant Finance Ltd.	Ordinary Share	12.00	1996	1.17
40	Bank of Kathmandu Ltd.	Ordinary Share	45.00	1996	5.36
41	Himalayan General Insurance Co. Ltd.	Right Share	30.00	1996	-
42	Bottlers Nepal Ltd.	Right Share	225.20	1997	-
43	Nepal Share Market & Finance Ltd.	Right Share	20.00	1997	-
44	Nepal Bitumin & Barrel Udyog Ltd.	Ordinary Share	7.40	1997	0.99
45	General Finance Ltd.	Ordinary Share	8.00	1997	1.00
46	Shreeram Sugar Mills Ltd.	Ordinary Share	46.50	1997	0.53
47	Shreeram Sugar Mills Ltd.	Debenture	93.00	1997	-
48	Neco Insurance Ltd.	Ordinary Share	20.00	1997	1.21
49	Nepal United Co. Ltd.	Right Share	3.01	1997	-
50	Nepal Bank Ltd.	Right Share	241.95	1997	-
51	Mahalaxmi Finance Ltd.	Ordinary Share	10.00	1998	1.89
52	Paschimanchal finance Ltd	Ordinary Share	8.00	1998	1.71
53	Annapurna Finance Ltd.	Right Share	5.00	1998	-
54	Lalipur Finance Co. Ltd	Ordinary Share	9.50	1998	1.47
55	Goodwill Finance & Inv. Co. Ltd.	Ordinary Share	10.00	1998	1.16
56	Alliance Insurance Co. Ltd.	Ordinary Share	20.00	1998	0.63
57	Taragaon Regency Hotels Ltd.	Ordinary Share	120.00	1999	2.47
58	Taragaon Regency Hotels Ltd.	Pref. Share	80.00	1999	-
59	Pokhara Finance Ltd.	Ordinary Share	8.00	1999	2.66
60	Nepal Share Market Ltd.	Right Share	30.00	1999	-
61	Universal Finance & Capital Market Ltd.	Ordinary Share	3.26	1999	4.52
62	Nepal Industrial & Commercial Bank Ltd.	Ordinary Share	175.00	1999	8.16
63	Necon Air Ltd.	Right Share	89.60	2000	-
64	Lumbini Fin. & Leasing Co. Ltd.	Ordinary Share	24.00	2000	11.56
65	Paschimanchal finance Ltd	Right Share	20.00	2000	-
66	Ace Finance Co. Ltd.	Right Share	15.00	2000	-
67	Oriental Hotels Ltd.	Ordinary Share	150.00	2000	6.29
68	Sagarmatha Insurance Co. Ltd.	Ordinary Share	10.20	2000	33.22
69	Siddhartha Finance Ltd.	Ordinary Share	8.00	2000	17.72
70	Nepal Merchant Banking & Finance Ltd.	Ordinary Share	50.00	2001	47.05
71	Alpic Everest Finance Ltd.	Ordinary Share	5.00	2001	42.18
72	Nepal Bangladesh Finance & Leasing Co. Ltd.	Ordinary Share	7.50	2001	32.57

73	Narayani Finance Ltd.	Right Share	12.58	2001	-
74	Nepal Development Bank Ltd.	Ordinary Share	48.00	2001	29.06
75	Everest Bank Ltd.	Right Share	119.21	2001	-
76	Bank of Kathmandu Ltd.	Right Share	234.00	2001	-
77	Himalayan Distillery Ltd.	Ordinary Share	173.46	2001	0.11
78	Nepal Housing & Merchant Finance Ltd.	Right Share	15.00	2002	-
79	Union Finance Co. Ltd.	Ordinary Share	24.00	2002	8.78
80	Development Credit Bank Ltd.	Ordinary Share	48.00	2002	14.10
81	Ace Finance Co. Ltd.	Right Share	45.00	2002	-
82	Nepal SBI Bank Ltd.	Right Share	287.87	2002	-
83	NIDC Capital Markets Ltd.	Right Share	40.00	2002	-
84	United Finance Ltd.	Ordinary Share	24.00	2002	10.56
85	Himalayan Bank Ltd.	Debenture	260.00	2002	7.56
86	Nepal Life Insurance Co. Ltd.	Ordinary Share	50.00	2002	-
87	Everest Bank Ltd.	Pref. Share	140.00	2002	-
88	International Leasing & Finance Ltd.	Ordinary Share	30.00	2002	21.71
89	Nirdhan Utthan Bank Ltd.	Ordinary Share	3.30	2002	3.88
90	Life Insurance Corporation Ltd.	Ordinary Share	20.00	2002	17.43
91	Nepal Sri Lanka Merchant Bank Ltd.	Ordinary Share	10.00	2002	6.15
92	Shree Investment & Finance Co. Ltd.	Ordinary Share	16.00	2002	18.69
93	Gorkha Finance Ltd.	Ordinary Share	10.00	2002	8.64
94	Janaki Finance Co. Ltd.	Ordinary Share	8.00	2002	15.84
95	Nepal Investment Bank Ltd.	Right Share	57.24	2002	-
96	Central Finance Co. Ltd.	Ordinary Share	8.00	2002	8.52
97	Nabadurga Finance Co. Ltd.	Ordinary Share	8.00	2002	14.52
98	Premier Finance Co. Ltd.	Ordinary Share	8.00	2003	10.26
99	Machhapuchere Bank Ltd.	Ordinary Share	165.00	2003	1.98
100	Nepal Share Market & Finance Ltd.	Right Share	60.00	2003	-
101	Mahalaxmi Finance Ltd.	Right Share	25.00	2003	-
102	N. B. Insurance Co. Ltd.	Ordinary Share	20.00	2003	1.33
103	People Finance Ltd.	Right Share	20.00	2003	-
104	Butwal Finance Ltd.	Ordinary Share	20.00	2003	8.04
105	Om Finance Co. Ltd.	Ordinary Share	8.00	2003	16.38
106	Laxmi Bank Ltd.	Ordinary Share	192.50	2003	2.51
107	Standard Finance Ltd.	Ordinary Share	24.00	2003	3.63
108	Alpic Everest Finance Ltd.	Right Share	20.00	2003	-
109	Nepal Investment Bank Ltd.	Debenture	300.00	2003	-
110	Cosmic Merchant Banking & Finance Ltd.	Ordinary Share	24.00	2003	7.18
111	Kumari Bank Ltd.	Ordinary Share	150.00	2003	8.11

112	Siddhartha Finance Ltd.	Right Share	20.00	2003	-
113	Fewa Finance Co. Ltd.	Ordinary Share	8.00	2004	23.55
114	Nepal Credit & Commercial Bank Ltd.	Ordinary Share	210.00	2004	1.22
115	Prudential Insurance Co. Ltd.	Ordinary Share	20.00	2004	9.56
116	Nepal Bangladesh Finance & Leasing Co. Ltd.	Right Share	30.00	2004	-
117	Chhimek Bikas Bank Ltd.	Ordinary Share	3.00	2004	1.39
118	Pachhimanchal Dev. Bank Ltd.	Ordinary Share	6.00	2004	20.23
119	Kist Merchant Banking & Finance Ltd.	Ordinary Share	20.00	2004	1.80
120	Nepal Bangladesh Bank Ltd.	Right Share	359.92	2004	-
121	Lumbini Bank Ltd.	Ordinary Share	150.00	2004	7.21
122	World Merchant Banking & Finance Ltd.	Ordinary Share	24.00	2004	9.65
123	National Hydro Power Co. Ltd.	Ordinary Share	140.00	2004	0.22
124	Annapurna Finance Ltd.	Right Share	20.00	2004	-
125	Birjung Finance Ltd.	Ordinary Share	24.00	2004	7.04
126	Deprosc Dev. Bank Ltd.	Ordinary Share	3.48	2005	2.59
127	Everest Bank Ltd.	Debenture	300.00	2005	-
128	Nirdhan Utthan Bank Ltd.	Right Share	15.00	2005	-
129	Nepal SBI Bank Ltd.	Right Share	215.29	2005	-
130	Nepal Investment Bank Ltd.	Right Share	295.29	2005	-
131	Everest Finance Ltd.	Ordinary Share	8.00	2005	5.40
132	Capital Merchant Banking & Finance Ltd.	Ordinary Share	28.00	2005	2.02
133	National Finance Co. Ltd.	Right Share	43.20	2005	-
134	Chilime Hydro Power Co. Ltd.	Ordinary Share	237.41	2005	5.10
135	Development Credit Bank Ltd.	Right Share	80.00	2005	-
136	Prudential Bittiya Santha Ltd.	Ordinary Share	24.50	2005	1.13
137	Siddhartha Bank Ltd.	Ordinary Share	150.00	2005	18.65
138	Bank of Kathmandu Ltd.	Debenture	200.00	2005	-
139	Srijana Finance Ltd.	Ordinary Share	4.00	2005	1.21
140	Kumari Bank Ltd.	Right Share	125.00	2005	-
141	Gandaki Dev. Finance Institution Ltd.	Ordinary Share	15.00	2006	3.98
142	Fewa Finance Co. Ltd.	Right Share	30.00	2006	-
143	Business Dev. Financial Institution Ltd.	Ordinary Share	12.00	2006	21.88
144	Om Finance Co. Ltd.	Right Share	30.00	2006	-
145	Royal Merchant Banking & Finance Ltd.	Ordinary Share	17.50	2006	2.83
146	Goodwill Finance Ltd.	Right Share	25.00	2006	-
147	Janaki Finance Ltd.	Right Share	10.00	2006	-
148	Central Finance Co. Ltd.	Right Share	12.00	2006	-
149	Taragaun Regency Hotels Ltd.	Right Share	446.45	2006	-
150	Bhajuranta Finance & Saving Co. Ltd.	Ordinary Share	10.50	2006	2.74

151	Guheswori Merchant Banking & Finance Ltd.	Ordinary Share	20.00	2006	2.13
152	Siddhartha Bikas Bank Ltd.	Ordinary Share	20.00	2006	2.22
153	IME Financial Institution Ltd.	Ordinary Share	17.50	2006	4.58
154	Shikhar Insurance Co. Ltd.	Ordinary Share	25.00	2006	43.76
155	Bhrikuti Development Bank Ltd.	Ordinary Share	6.42	2006	2.14
156	Machhapuchere Bank Ltd.	Right Share	165.00	2006	-
157	Kist Merchant Banking & Finance Ltd.	Right Share	50.00	2006	-
158	Nepal Share Market & Finance Ltd.	Right Share	40.00	2006	-
159	Nepal Investment Bank Ltd.	Debenture	250.00	2006	-
160	NIC Bank Ltd.	Debenture	200.00	2006	-
161	Patan Finance Ltd.	Ordinary Share	20.00	2006	1.16
162	Nepal SBI Bank Ltd.	Debenture	200.00	2006	-
163	Pokhara Finance Ltd.	Right Share	20.00	2006	-
164	Narayani Industrial Bikas Bank Ltd.	Ordinary Share	6.00	2006	6.14
165	Sanima Bikas Bank Ltd.	Ordinary Share	96.00	2006	40.31
166	Lumbini Bank Ltd.	Right Share	100.00	2006	-
167	Paschimanchal Bikas Bank Ltd.	Right Share	28.00	2006	-
168	Bageswori Bikas Bank Ltd.	Ordinary Share	9.00	2006	4.48
169	Alpic Everest Finance Ltd.	Right Share	20.00	2006	-
170	People Finance Ltd.	Right Share	40.00	2006	-
171	Sahayogi Bikas Bank Ltd.	Ordinary Share	6.00	2006	19.17
172	Chhimek Bikas Bank Ltd.	Right Share	20.00	2006	-
173	Nepal Development Bank Ltd.	Right Share	160.00	2006	-
174	Gorkha Development Bank Ltd.	Ordinary Share	96.00	2006	108.32
175	Ace Finance Co. Ltd.	Right Share	194.00	2007	-
176	Navadurga Finance Co. Ltd.	Right Share	11.00	2007	-
177	Annapurna Finance Ltd.	Right Share	80.00	2007	-
178	Emporial Financial Institution Ltd.	Ordinary Share	19.50	2007	25.68
179	Swabalamban Bikas Bank Ltd.	Ordinary Share	6.00	2007	96.23
180	Himchuli Bikas Bank Ltd.	Ordinary Share	12.00	2007	133.62
181	ICFC Financial Institution Ltd.	Ordinary Share	24.40	2007	35.06
182	Annapurna Bikas Bank Ltd.	Ordinary Share	29.40	2007	21.94
183	Laxmi Bank Ltd.	Right Share	122.40	2007	-
184	Civil Merchant Financial Institution Ltd.	Ordinary Share	20.00	2007	15.00
185	Capital Merchant Financial institutions Ltd.	Right Share	84.00	2007	-
186	Yeti Finance Ltd.	Right Share	6.30	2007	-
187	Business Development Bank Ltd.	Right Share	30.00	2007	-
188	Nepal Express Finance Ltd.	Ordinary Share	15.00	2007	7.82
189	Kist Merchant Banking & Finance Ltd.	Right Share	100.00	2007	-

190	Siddhartha Bank Ltd.	Right Share	100.00	2007	-
191	Biratlaxmi Bikas Bank Ltd.	Ordinary Share	20.00	2007	13.40
192	Nepal Investment Bank Ltd.	Debenture	250.00	2007	-
193	Malika Bikas Bank Ltd.	Ordinary Share	15.00	2007	54.84
194	Lumbini Bank Ltd.	Right Share	150.00	2007	-
195	Excel Development Bank Ltd.	Ordinary Share	6.00	2007	18.97
196	Everest Bank Ltd.	Pref. Share	400.00	2007	-
197	Merchant Finance Co. Ltd.	Ordinary Share	12.00	2007	-
198	Lumbini General Insurance Co. Ltd.	Ordinary Share	25.00	2007	71.73
199	Siddhartha Insurance Ltd.	Ordinary Share	25.00	2007	60.63
200	Infrastructure Dev. Bank Ltd.	Ordinary Share	24.00	2007	93.55
201	Kuber Merchant Bittiya Santha Ltd.	Ordinary Share	22.50	2007	44.47
202	Prabhu Finance Co. Ltd.	Ordinary Share	48.00	2007	77.30
203	Agriculture Dev. Bank Ltd.	Ordinary Share	125.00	2007	-
204	Nepal Dev. & Employment Bank Ltd.	Ordinary Share	128.00	2008	35.05
205	Sikhar Bittiya Santha Ltd.	Ordinary Share	20.00	2008	26.71
206	Clean Energy Dev. Bank Ltd.	Ordinary Share	96.00	2008	36.46
207	Subechha Dev. Bank Ltd.	Ordinary Share	12.00	2008	61.83
208	Kaski Finance Ltd.	Ordinary Share	20.00	2008	21.93
209	Lord Buddha Financial Institutions Ltd.	Ordinary Share	22.50	2008	16.73
210	Sagarmatha Merchant Banking & Finance Ltd.	Ordinary Share	20.00	2008	25.78
211	Reliable Inv. Financial Institutions Ltd.	Ordinary Share	24.80	2008	31.52
212	Global Bank Ltd.	Ordinary Share	300.00	2008	34.25
213	Nepal Electricity Corporation	Debenture	1500.00	2008	-
214	Kumari Bank Ltd.	Debenture	400.00	2008	-
215	Himalayan Bank Ltd.	Debenture	500.00	2008	-
216	Nepal Investment Bank Ltd.	Debenture	250.00	2008	-
217	Nabil Bank Ltd.	Debenture	300.00	2008	-
218	Nepal Investment Bank Ltd.	Right Share	201.30	2008	-
219	Siddhartha Bank Ltd.	Right Share	138.00	2008	-
220	NIC Bank Ltd.	Right Share	158.40	2008	-
221	Lumbini Bank Ltd.	Right Share	250.00	2008	-
222	Kumari Bank Ltd.	Right Share	180.00	2008	-
223	Laxmi Bank Ltd.	Right Share	183.00	2008	-
224	NCC Bank Ltd.	Right Share	700.00	2008	-
225	Paschimanchal Bikas Bank Ltd.	Right Share	47.50	2008	-
226	Bhrikuti Bikas Bank Ltd.	Right Share	30.00	2008	-
227	Development Credit Bank Ltd.	Right Share	806.40	2008	-
228	Siddhartha Bikas Bank Ltd.	Right Share	50.00	2008	-

229	Sanima Bikas Bank Ltd.	Right Share	64.00	2008	-
230	Ace Development Bank Ltd.	Right Share	96.00	2008	-
231	Gorkha Bikas Bank Ltd.	Right Share	160.00	2008	-
232	Business Development Bank Ltd.	Right Share	150.00	2008	-
233	Himchuli Bikas Bank Ltd.	Right Share	60.00	2008	-
234	Annapurna Bikas Bank Ltd.	Right Share	150.00	2008	-
235	Sahayogi Bikas Bank Ltd.	Right Share	10.00	2008	-
236	Capital Merchant Banking & Finance Ltd.	Right Share	161.00	2008	-
237	Premier Finance Co. Ltd.	Right Share	14.40	2008	-
238	Nirdhan Utthan Bank Ltd.	Right Share	39.50	2008	-
239	Central Finance Ltd.	Right Share	24.00	2008	-
240	Nepal Merchant Banking & Finance Ltd.	Right Share	800.00	2008	-
241	Nepal Share Market & Finance Ltd.	Right Share	240.00	2008	-
242	IME Financial Institutions Ltd.	Right Share	50.00	2008	-
243	Prudential Bittiya Sanstha Ltd.	Right Share	50.00	2008	-
244	Paschimanchal Finance Co. Ltd.	Right Share	27.80	2008	-
245	Kist Merchant Banking & Finance Ltd.	Right Share	600.00	2008	-
246	Goodwill Finance Ltd.	Right Share	50.00	2008	-
247	United Finance Ltd.	Right Share	75.00	2008	-
248	Nepal Express Finance Ltd.	Right Share	30.00	2008	-
249	Royal Merchant Banking & Finance Ltd.	Right Share	60.60	2008	-
250	ICFC Bittiya Sanstha Ltd.	Right Share	224.80	2008	-
251	International Leasing & Finance Ltd.	Right Share	504.00	2008	-
252	Nepal Housing & Merchant Finance Ltd.	Right Share	80.40	2008	-
253	Shree Investment Finance Ltd.	Right Share	16.80	2008	-
254	Standard Finance Ltd.	Right Share	72.60	2008	-
255	Gorkha Finance Ltd.	Right Share	30.00	2008	-
256	Guheswori Merchant Banking & Finance Ltd.	Right Share	37.00	2008	-
257	Nepal Awas Bikas Bitta Co. Ltd.	Right Share	70.50	2008	-
258	Sagarmatha Insurance Co. Ltd.	Right Share	23.60	2008	-
259	Premier Insurance Co. Ltd.	Right Share	39.00	2008	-
260	Himalayan General Insurance Ltd.	Right Share	37.80	2008	-
261	Citizen Bank International Ltd.	Ordinary Share	300.00	2009	20.98
262	Bank Of Asia Nepal Ltd.	Ordinary Share	300.00	2009	18.90
263	Sunrise Bank Ltd.	Ordinary Share	375.00	2009	26.75
264	Prime Commercial Bank Ltd.	Ordinary Share	300.00	2009	29.85
265	Tribeni Bikas Bank Ltd.	Ordinary Share	15.00	2009	-
266	Pashupati Bikas Bank Ltd.	Ordinary Share	80.00	2009	-
267	Madhyamanchal Gramin Bikas Bank Ltd.	Ordinary Share	30.00	2009	15.26

268	Vibor Bikas Bank Ltd.	Ordinary Share	265.20	2009	7.18
269	Public Development Bank Ltd.	Ordinary Share	60.00	2009	28.26
270	Api Finance Ltd.	Ordinary Share	18.00	2009	26.24
271	Crystal Finance Ltd.	Ordinary Share	21.00	2009	31.06
272	Arun Valley Hydropower Dev. Co. Ltd.	Ordinary Share	51.50	2009	27.74
273	Siddhartha Bank Ltd.	Debenture	400.00	2009	-
274	Laxmi Bank Ltd.	Debenture	350.00	2009	-
275	Machhapuchere Bank Ltd.	Right Share	493.00	2009	-
276	Kist Bank Ltd.	Right Share	1200.00	2009	-
277	Nepal Bangladesh Bank Ltd.	Right Share	1116.89	2009	-
278	Nepal Investment Bank Ltd.	Right Share	803.03	2009	-
279	NMB Bank Ltd.	Right Share	330.00	2009	-
280	DCBL Bank Ltd.	Right Share	553.73	2009	-
281	Gandaki Development Bank Ltd.	Right Share	50.00	2009	-
282	Swabalamwan Bikas Bank Ltd.	Right Share	35.00	2009	-
283	Bageswori Bikas Bank Ltd.	Right Share	15.00	2009	-
284	Nepal Bikas Bank Ltd.	Right Share	320.00	2009	-
285	Infrastructure Dev. Bank Ltd.	Right Share	240.00	2009	-
286	Siddhartha Dev. Bank Ltd.	Right Share	537.86	2009	-
287	Sanima Bikas Bank Ltd.	Right Share	384.00	2009	-
288	Ace Development Bank Ltd.	Right Share	292.86	2009	-
289	Narayani Dev. Bank Ltd.	Right Share	10.00	2009	-
290	Gorkha Development Bank Ltd.	Right Share	120.00	2009	-
291	Nepal Dev. & Employment Promotion Bank Ltd.	Right Share	160.00	2009	-
292	Bhrikuti Bikas Bank Ltd.	Right Share	141.00	2009	-
293	Excel Development Bank Ltd.	Right Share	60.00	2009	-
294	Kathmandu Finance Ltd.	Right Share	37.95	2009	-
295	Narayani Finance Ltd.	Right Share	150.07	2009	-
296	Yeti Finance Ltd.	Right Share	31.25	2009	-
297	Om Finance Co. Ltd.	Right Share	14.00	2009	-
298	Union Finance Ltd.	Right Share	72.52	2009	-
299	Srijana Finance Ltd.	Right Share	14.00	2009	-
300	National Finance Ltd.	Right Share	62.80	2009	-
301	Nepal Srilanka Merchant Bank Ltd.	Right Share	200.00	2009	-
302	People Finance Ltd.	Right Share	168.00	2009	-
303	Pokhara Finance Ltd.	Right Share	180.00	2009	-
304	IME Financial Institutions Ltd.	Right Share	125.00	2009	-
305	Samjhana Finance Ltd.	Right Share	27.83	2009	-
306	Universal Finance Ltd.	Right Share	60.23	2009	-

307	Civil Merchant Bittiya Sansthan Ltd.	Right Share	50.00	2009	-
308	Premier Finance Ltd.	Right Share	47.52	2009	-
309	Imperial Finance Ltd.	Right Share	50.00	2009	-
310	World Merchant Banking & Finance Ltd.	Right Share	72.00	2009	-
311	Central Finance Ltd.	Right Share	25.39	2009	-
312	Standard Finance Ltd.	Right Share	834.90	2009	-
313	Lumbini Finance & Leasing Co. Ltd.	Right Share	45.00	2009	-
314	Navadurga Finance Co. Ltd.	Right Share	54.71	2009	-
315	Prabhu Finance Ltd.	Right Share	80.00	2009	-
316	Patan Finance Ltd.	Right Share	50.00	2009	-
317	Everest Finance Ltd.	Right Share	20.00	2009	-
318	Nepal Share Market & Finance Ltd.	Right Share	1567.73	2009	-
319	Nepal Express Finance Ltd.	Right Share	24.00	2009	-
320	General Finance Ltd.	Right Share	2424.18	2009	-
321	Neco Insurance Co. Ltd.	Right Share	55.00	2009	-
322	United Insurance Co (Nepal) Ltd.	Right Share	28.80	2009	-
323	National Life Insurance Co. Ltd.	Right Share	132.00	2009	-
324	National Hydropower Co. Ltd.	Right Share	694.94	2009	-

Source: SEBON Annual Reports