CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The business world today is more sophisticated than of the past. The changing lifestyle and increased demand for good and services have always been a challenge as well as opportunity to business houses. The expansion of any kind of business is impossible if there is insufficient fund. The firms need finance for various purposes. The type of finance needed by a firm largely depends upon the type of the enterprises, and varies from one firm to other, depending on the firm's peculiarities. The need for long-term assets may be higher for some enterprises than the others and they may require higher amount of working capital too.

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 (Goldschmidt, 1956:54).

There are two sources; 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 is self-sufficient.

With the development of money, finance and financial institutions, it is no longer necessary for an enterprise to finance from its internal sources alone and have a balanced budget. Furthermore, the innovation of corporate from of business organization with the principle of limited liability and efficient technique of acquiring capital through the issue of variety of ownership and debt securities have enabled investors to satisfy their diverse asset preferences. This has made it possible for a corporate enterprise to attract the external funds from the public by issuing shares. On the other hand, promoters' equity fund may not be sufficient for its financial requirements whether it is newly establishing company or seeking to expand and modernize. They can get loan from the bank and financial institutions will lend only a certain percentage of the company's equity base or asset which may not be sufficient for the company. Also getting loan from bank and financial institutions is not easy because there may be a lengthy process and legal requirements involved. Issuing of shares to the general public is made compulsory under Securities Exchange Act, 2006 in Nepal. Promoters will not receive permission from the government authority to establish a public limited company if they do not show desire to include general public in its equity base. Hence, the firm needs to sell part of its total equity to the general public to raise the required funds through Initial Public Offerings.

An initial public offering (IPO) occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will develop. An IPO can be of any debt or equity security. Firms going public, especially young growth firms, face a market that is subject to sharp swings in valuations. The fact that the issuing firm is subject to the whims of the market makes the IPO processes a high-stress period for entrepreneurs.

The banking and financial sector in Nepal is the most active one as far as securities issues and transactions. Most of the IPOs in this sector received over good response for the investors both institutional and general public with the shares subscribed sometimes almost 10-15 times of the number of shares in offer. Besides, the stocks have already trade at very high price to earning ratios in the country's only stock exchange, namely Nepal Stock Exchange. With other sectors of the economy quite dormant and passive, the biggest influence on the NEPSE Index comes from the movements in the banking and financial sector.

In Nepal, the first public issue of ordinary shares took place more than fifty years back with the public issue of Biratnagar Jute Mills and Nepal Bank Ltd. in 1973 AD. But the development of capital market started in 1976 AD, after the establishment of Securities Exchange center with the objective of facilitating and promoting the capital market in Nepal. It was the only capital market institution, which undertook the job of brokering underwriting, and managing public issue, market making for government bonds and other financial services. Securities Exchange center dealt in the securities as a broker as well as a regulatory body. This center used to take buy and sale only on orders from interested investors and confirm then if and when the price and quantity matched. There was no time limit within which a deal took place. It normally took one day to three weeks. Due to this, general public faced problems while buying and selling shares. The securities Exchange center issued shares of 62 companies from the year if its inception to 1999 AD. Among these, 23 companies were undersubscribed including Nepal Med ltd. Nimrod Pharmaceuticals ltd. Harisiddhi Brick and Tile Ltd, Himgiri Textile Ltd, Bansbari leather shoe factory Ltd. Nepal Aawas Bikash Bitta

Company Ltd., and Yeti Finance Company Ltd, etc. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market. The public response to the new issue of shares of selected companies like banks and finance companies were overwhelming.

In 1993, Securities Exchange Center was converted in to full-fledged Stock Exchange and under its support; the broker system of secondary market was established. Nepal Stock exchange is a non-profit organization and operated under securities exchange Act, 2006. The basic objective of Nepal Stock Exchange is to impart free marketability and liquidity to the government bonds and corporate securities by facilitating transaction in its trading floor through market intermediaries. With the establishment of full-fledged stock exchange, the shares, which the public had held for decades, became liquid. Due to this the public response to new issue, there is mostly the case of oversubscription whenever the securities are issued in the primary market. Specially, applications for subscription are flooding in for the securities issued by commercial backing and financial sector. Only a little fraction of the aspirants get chance to actually possess a small part of the securities in proportion of the numbers applied for. The latest event of under subscription had occurred in case of Himalayan Distillery's share which was issued in 2002.

1.2 Statement of the Problems

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

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

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

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

- Who are the beneficiaries of IPO?
- What is the main cause oversubscription and under subscription in IPO?
- In which sector, subscription pattern is high?
- Is underpricing does exist in Nepalese IPO?
- Are there any relationship in between degree of subscription and initial return?

1.3 Objectives of the Study

The main objective of the study is to analyze the Nepalese IPO market. The specific objectives are:

- To examine the sectorial growth of primary market in Nepalese capital market.
- To analyze the subscription pattern of securities in Initial Public Offerings.
- To examine the most oversubscribed and most undersubscribed issue of IPO.
- To examine the degree of underpricing in Nepalese IPO.
- To examine the relationship between subscription pattern and initial return in Nepalese IPO.

1.4 Significances of the Study

The research work is concerned very few handed performed on these particular subject matter of subscription of corporate securities in IPO. There is rare availability of research work and arties on this topic in Nepal. In this context present study will serve as source of literature in the field of subscription sowing.

This study attends to fill gap in this important area of capital structure practices with focus on IPO service. This research would be helpful to the regulatory authorities like NRB, SEBO and other financial institutions. It is also use helpful to students, researchers, financial managers and analysts who are interested to have knowledge on this field.

1.5 Limitation of the Study

This study has been conducted with certain limitation. The main limitations and constraints are as follows:

1. Data are taken from primary and secondary sources; the accuracy of research depends upon its accuracy and reliability of collected data.
2. The study is not covered all recent changes because the data are used from fiscal year 1993/94 to 2007/08.
4. The non-availability of various references and resources also acts as constrains.
5. Many Securities are issued in the securities market but here only considered common stock for analysis subscription pattern.

1.6 Organization of the Study

The study organized into five chapters, each devoted to some aspect of the study of subscription of securities in initial public offering in Nepal followed by financial institutions in Nepal. The fields of each of these chapters are as follows:

Chapter I: Introduction

This chapter describes the general background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter III: Research Methodology

This chapter describes the research methodology employed in the study. This deals with the nature and sources of data, list of the selected Companies the model of analysis, meaning and definition of Statistical tools.

Chapter IV: Data Presentation and Analysis

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

Chapter V: Summary, Conclusion and Recommendations

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 Introduction

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

2.1.1 Concept of Financial Market

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

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

2.1.2 Money Market

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

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

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

2.1.3 Capital Market

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

Capital Market Instrument in Nepal

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

1. **Mortgage:** Mortgage securities represent ownership interest in a pool of mortgage loan. So, a mortgage debenture is a promise to pay secured by a mortgage of all or part of the company's assets. Companies secure loan by presenting their fixed assets as collateral. Mortgages have estimated maturity and payment cycle of interest and capital.
2. **Corporate Bond:** Corporate bond is fixed income security issued by private firm, business enterprises, owned by private investor or by government. Corporate bond typically pays semi-annual coupon over their lives and return the face value to the bond holder at maturity date. Corporate bond has high default risk. On basis of securities these bonds are secured bond and unsecured bond or debentures. Corporate bond may have many other features like call provision, convertibility, attachment of warrants etc, Very few companies have issued corporate bond in the

Nepalese market. The first instance of bond issue was by Bottlers Nepal Ltd when it issued 18% coupon rate bond in 1986/87.

3. **Corporate Stock:** When we own stock, we are one of the owners of the issuing corporation. The value of stock can rise and fall depending on such factors such as the growth of the company, general economic condition and market conditions. If the corporation is earning profits, shareholders will get the portion of the profit in the form of the dividend. Corporate stock consists of Common Stock and Preferred Stock. Company will pay fixed predetermined dividend to the Preferred Stockholders before distributing to the stockholders.
4. **Government Bond:** People and organization lend money to government by purchasing bond. Government bonds are among the safest of all investments as the government is unlikely to default on interest or on principal repayment. Nepal stock exchange has started trading government since 2063 Mansir 29 BS. Government bond offers interest rate ranging from 5.5%-6.5% and with maturity period of 5-12 years. Trading of government bond makes market interest rate more realistic. It indicates minimum market interest rate in the economy. There are 6 authorized government bond brokers in Nepal.

2.1.4 Money Market in Nepal

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

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

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

2.1.5 Primary market

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

In the primary market the principal sources of funds is the domestic savings of individual and business, other supplies include foreign investors and governments.

The ultimate supplies of funds are those sectors with a surplus of current incomes over expenditures (savings) and these funds flow to ultimate users, economic use securities to finance a surplus of expenditure over their current incomes.

Historical Background of Nepalese Primary Market

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

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

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

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

Table 2.1

Securities issued by Securities Exchange Center

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

In 1993 AD, remarkable development took place in the capital market. Under a program initiated to reform the capital market the Securities Exchange Center was converted into the Nepal Stock Exchange in order to increase marketability to government bonds and corporate securities. Nepal stock Exchange opened its trading floor in 13th January, 1994 providing membership to 5 market makers and 25 brokers.

The members are permitted to act as intermediaries in buying and selling of shares of listed companies. The number of listed companies increased from 63 in 1992/93 to 99 in 1994/95 and the market value from 4,000 millions to 12,963 millions respectively. After opening the trading floor to brokers and market makers the total annual turnover rose from 70 million in 1992/93 to 1,052 million in 1994/95 (SEBON Annual Report 95/96).

Characteristics of Primary market

The Primary market has following characteristics:

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

Primary Market Process in Nepal

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

a) The information of issue of security is published by the company through different daily magazine as issue notice. The notice of issue is published from 7-15 days prior to the sell of security.

b) The application forms are collected from public in different collection center and the fund is collected by selling the application form collected in issue

c) Share are allotted or distributed to the applicant within 70 days after the closes of sell securities according to the quantity of application.

d) Money received applicants who are not listed in share allotment is return there after through bill of payment or checks.

e) Share certification: After the distribution of securities the investors are provided with distribution letter and ownership certificates from relevant collection centers.

Factors to be considered while investment in primary market

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

a) Investors should ensure themselves about the objectives of the investment. The investment may have the objective of risk bearing or aversion.

b) They should analyze the type of the business the relevant company is operating.

c) After selecting the desired type of securities as per the risk bearing capacity, investor should make the list of the companies issuing those kinds of security for their internal and external analysis and the persons related to those companies. If the company is running since past, its previous business and current status should be studied and analyzed. And if it is newly established, its type of business and its future possibility of success should be projected. Similarly, the qualifications and background of the persons related to the companies such as managing director, members of BOD, chairman, debtors, etc. should be studied.

Factors to be Consider after investment in Primary Market

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

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

Sources of Primary Market Information in Nepal

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

- Daily News Paper: - Companies issued information related to issue of their securities in the market through daily news paper. In Nepal some of daily newspapers are: Gorkhapatra, The Kantipur Daily, The Himalayan Times, and The Kathmandu Post etc. Normally the information given through these daily newspaper are company's introduction, Promoters introduction, forms distribution centers, capital structure of company, minimum and maximum to be applied for, complaints collection center and solution management etc.

- Media: - They include radio, Television, Advertising Agencies etc. Information from Security Board, Security Exchange Market, NRB and Company Registered Office etc.
- Websites: - The websites such as www.sebonp.com, www.ncml.com etc. are also the sources of primary market information.

2.1.6 Primary Market and Initial Public Offering

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

When a company wants to raise funds form 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 offerings 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 form 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.

2.1.7 Advantages of an IPO

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

2.1.8 Disadvantages of an IPO

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

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

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

2.1.9 Timing of a Public Offering

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

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

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

2.1.10 Types of securities offered in the primary market

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

1. Common Equity/ Stock offerings

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

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

2. Preference Shares/ Preferred Stocks offerings

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

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

The different types of preference shares are:

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

3. Bonds/ Debentures offerings

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

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

The different types of debentures are:

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

4. Warrants

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

- Bonds with warrants
- Preferred stocks with warrants

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. Conversion features increases the marketability of the security. Unlike the exercise price of warrants, the debt and preferred stock is simply replaced by common stock but does not provided additional capital.

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

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

2.1.11 Initial Public Offering (IPO) Manual

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

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

Issuing company

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

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

NRB has made mandatory that financial institutions must go for common stock public offerings within specified time of operation commencement. NRB has also set forth different minimum percentage of equity holding to be offered to the public shareholders. For commercial banks, minimum shares to be held by public is 30%; for finance companies, it is 40%; for development bank it is minimum 30% and maximum of 50%. In the case of foreign participation, their equity holding would be arranged from the percentage allocated for the public. For finance companies, in the event of foreign participation, the minimum percentage to be allocated to the general public is 25% of paid-up capital.

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

Merchant Bankers

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

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

The concept of merchant Banking differs from other commercial and development banks in respect that they do not require large funds to be invested as a principle.

Their sources of income are basically the service charge they charge to their clients for playing intermediary role in the fund mobilization and their advisory role. Typically, the activities of domestically oriented investment banks can be grouped under,

- Securities Underwriting
- The secondary market for securities
- The money market
- Corporate advisory services
- Investment portfolio management services, and also
- Venture capital
- Leasing/Hire purchase
- Other services (insurance, real estate etc.)

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

Issue Manager

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

Table 2.2

List of Issue Manager

NO.	Issue Manager
1	Nepal Merchant Banking and Finance Ltd.(NML)
2	National Finance Company Ltd. (NFL)
3	Ace Finance Company Ltd. (AFCL)
4	Nepal Share Market Company Ltd. (NSML)
5	United Finance Ltd. (UFL)
6	Nepal Sri Lanka Merchant Bank Ltd. (NCMBL)
7	Citizen Investment Trust. (CIT)
8	NIDC Capital Market Ltd. (NCML)
9	Nepal Finance and Saving Company Ltd.

Sources: Annual report 2007/08 of SEBON

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

Securities Board of Nepal

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

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

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

Role of Securities Board in Issue of securities

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

a. Protection of rights and interests of the investor, especially,

- The right to adequate, true and fair information
- The need for liquidity
- Prompt, fair and equitable allotment
- Easy and efficient service in allotments and transfers

b. The need to encourage corporate entities to tap the securities markets for their diverse resources needs.

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

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

a. Capital control, governing issue of securities and the terms of their issues;
- To regulate terms of issues of securities from the viewpoint of investor protection, issuers needs and overall development of the securities market; and
- To promote sound capital structure of companies.

b. Prospectus provisions, governing the disclosure of information at the time of issue of any security;
c. Obligations of regular disclosure of financial and other information on entities making public issues;
d. Listing requirements governing traded securities;
e. Provisions governing allotment and transfer of securities.
- Ensuring fair and equitable allotment; and
- Promoting speedier and more efficient service in matters of allotment and transfer.

Offices of the Registrar of Companies (ROC)

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

As per the company act 2063, public companies need to publish their prospectus before issuing securities to the public. Before publishing prospectus, one copy of the prospectus needs to be submitted to ROC. In this process, ROC approves the prospectus to be published. While approving the prospectus, ROC makes sure that important information is not missed out and unnecessary information is not mentioned. In the presence of such changes, ROC grants approval to issuing company to issue the prospectus. Apart from approving the prospectus to be published bye the issuing company before going into public.

Stock Exchange Market

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

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

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

Nepal Rastra Bank (NRB)

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

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

Initial Public Offering (IPO)

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

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

Issue Manager

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

Lead Manager

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

Underwriting

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

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

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

Function of Underwriter

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

- Underwriter purchases the securities from the issuing company and resells it to the general public.
- The resale price must be neither too high nor too low from the purchase price. If unforeseen changes arise in market, they have to sell it at less than the price that they paid otherwise they might be sell it at somehow higher than purchase price.
- Underwriting functions also include private placement where the investment banker acts an intermediary in bringing together the issuer and investors.
- When the price is right, market condition are good and the issuing company and underwriter are reputable it is less risky job to underwriter and it could sold entire amount of share one or few days but it the condition is vice-versa, it would be high risky to the underwriter. It would take few weeks or a month or even more to sell. If it is big deal, underwriter would loose millions rupees from this function.
- In some IPO's underwriters may agree to use certain facilities in distributing new shares on a best effort basis, that is it is assuming that underwriter/investment banker has no financial responsibility if all securities could not be sold. In this case underwriter function would become limited so they would get less commission and other chargers than for a fully underwriting.

Banker to the Issue

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

Collection Centers

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

Prospectus

The prospectus is defined as, “any document described or issued as a prospectus and includes any notice, circular advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of shares in, or debentures of, a body corporate”.

The Company Act 2063 has made mandatory that any public institution going into public offerings must issue the prospectus before issuing the securities to the public. The prospectus needs to be specific and patterned as per the Company Act. According to the Act, before publishing for the public, the prospectus signed by the board of directors should be sent to and get approval from the Office of Registrar of the

Companies and Securities Board. The requirement is made to make sure that the information provided to the public is as per requirement and is not manipulated to mislead the public. The prospectus published for the public should state in the publication the approval from the Office of Registrar of the Companies.

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

Budget for the Issue

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

Application form

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

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

Application form is the legal document that the investor provides to the company stating the number of shares of a company he/she is willing to accept. The applicants submitting the application forms would imply that he/she has accepted the terms and conditions stated in the application form with the full knowledge about the matters referred in the prospectus. Attached with the application form a photocopy of citizenship is collected as a proof to applicants' acceptance to terms and condition and a remedy to possible discrepancies in identification. In case of minor applicants, citizen certificate of parents or guardian is to be attached.

Bridge Financing

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

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

Memorandum of Understanding

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

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

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

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

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

Issue Commission

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

Underwriting Commission

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

Collection Charges

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

Refund Charges

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

Fix Charges to the Collection Centers – Finance Companies

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

Listing in the Nepal Stock Exchange Limited

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

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

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

2.1.13 Review of Laws Related to IPOs

1. Issues Management Guidelines

- Issue managers should abide by the directives mentioned in Security Issue and Issue Management Guidelines.
- Issue manager must be registered and acquire licensed from SEBO as per the Security Exchange Act.
- Issue managers must abide by Security Exchange Act 2063 to create healthy market practices and protect the interest of investors.
- For public issuance, issue managers should register it in SEBO in line with the procedure for securities of industrial organizations, Financial Organizations. Model related with Right Share; Debenture issue etc. should be duly considered as mention in the provisions.
- Issue manager and the issuing company should reach in an agreement with clear understandings on each dihers prerogatives, duties and responsibilities.
- Issue manager should ensure whether the issuing company decision to issue securities is mentioned in its prospectus and the potential issue related matters are in line with company act.
- Issue manager can publish its prospectus only after obtaining acceptance from CRO.
- On the basis of the accepted prospectus, issue manager must register the securities in SEBO for permission.
- Issue manager should start selling the securities to general public and organizations within 2 months of acquiring permission from the SEBO to do so. Any changes can be exercised only with prior acceptance from SEBO.

- At least one application centre must be established in each development region for selling securities worth 5 core or more.
- Only the factual information should be mentioned in the call paper and advertisements meant for public information.
- Investors and concerned officials upon request should be provided to see copies of registration letter and permission granted by SEBO, terms and conditions as well as other documents presented to SEBO.
- The money collected from application must be deposited in an account of banker to the issue or commercial banks. Such amount remains as custody till allotment. Issue manager should provide SEBO with details about the bases for allotment.
- Issue manager has the responsibility to hear and solve accordingly the complaints made by investors.
- Issue manager should abide by code of conduct to engage in healthy market practices and to protect the interests of investors.
- Issue manager must provide all the details about the entire procedure of selling the securities within 70 days of closure date of the sale.
- SEBO can fix other conditions as per necessity and it will be the duty of issue manager to comply with them.

2. Allotment Guidelines

- With in the 40 to 70 days of the closure of share issue, a public company shall allot the shares on the basis of application received. No shares shall be allotted unless at least 50% of the total shares issued publicly can sell. Upon such failure, the CRO may extend the time limit up to three months for the allotment of shares.

- Investor's selected included in allotment shall be provided with allotment letter whereas rejected investors shall be refunded. If such amount is not returned within maximum time of 70 days, interest should be added from the day of closure of share issue to the day of refund. The interest should be added as specified by the company act.

Share allotment and refund time-period

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

- If funds are insufficient to refund the amount required to be refunded, the shortfall amount shall be borne by the promoters personally.
- If allotment of share is made discriminatorily on with intent to cause loss to any investor, the investor may file a petition, citing the reasons, in the court if found guilty, the concerned officer has to compensate the investor for such loss as well as for the expenses incurred in the legal action.

3. Company Act 2063

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

- The face value of securities must be Rs50 or more as multiple of ten.
- A company can not collect more than 50 percent of the amount of face value of securities while inviting application but this is not applicable for the company that is running since last three years or more.
- The share allotment must be started within the maximum period of three months after the closure date of share issue, however, at least 50% of the total share issued publicly should be sold otherwise, and no shares can be allotted.
- If the allotment of the share can not be made even within the time limit as referred as above, the amount receive of the subscription of shares as well as an interest there on as prescribed, from the day of expiration of such time limit to the day of refund of such amount shall be refunded.
- The promoters of the company must refund the amount required to be refunded personally incase of insufficiency of fund
- If an investor feels that the allotment is made in discriminatorily or with intent to cause any loss he/she petition in the court on that matter and the court may issue an order for realization to the related party for compensation as well as reasonable expenses incurred in the legal action.
- A company which has been distributing dividend for three consecutive years and whose net worth exceeds its total liabilities can issue share at premium as per the decision made by its AGM. The premium amount shall be deposited in the premium account.

- While issuing securities, the company should deal only through a security dealer recognized to do security transaction. And the company should file a copy of agreement.
- Within two months after the allotment of shares, the company should prescribe a share certificate to every shareholder.
- A company should file with the office a return of allotments stating the no. of shares issue and allotted, total amount of the shares and name and address of the allotee and amount paid and due on each shares within 30dyas after the allotment of shares.
- If any shares have been allotted as fully or partly paid up other than the cash, after the allotment the no. of shares so allotted and the extent to which they are to be tread as paid up.
- A public company should dealing with recognized security dealer to do security transaction and including all acts such as the sale, allotment and recovery amount of such securities.
- In case of jointly held shares, the company may be issued one of them by mentioned their name in the certificate but the company is free to mention all shareholders name.
- If a share certificate is lost or destroyed because of a divine act or otherwise, the shareholder should give information along with application to he company and if matter contained in the application seems to be reasonable, the company should issue another certificate to the applicant by charging duplicate fees and this matter also should be recorded in the shareholders register.

- A public company could raise fund by issuing debentures with or without pledging or mortgaging its immovable assets. But company might be specifying the reasons there for.
- Public company could issue debenture only after making provision of a debenture trustee. The debenture trustee has to be debenture trustee licensed by the SEBO. And the agreement between company and trustee should be mentioned.
- Debenture and preference share are to be converted in to the share but this matter has to be clearly mentioned in the prospectus.
- The share or debenture of a company might be sold or pledged like movable property but promoter of a company other than private company could not borrow loan from any other company.
- If any shareholder fails to pay the call money with in the period, a notice should be sent to the concerned shareholder, giving an additional period of three months, after the period of three months after the date of expiration of the period along with the interest at the prescribed rate and if that shareholder fails to make payment even with in that period, in this case share should be liable to forfeited. But in the case of a public company such notice should also be published in a national circulation daily newspaper at least three times. If the amount of called is not even with the limited time as mention in that notice, the company may forfeited all or the remaining share after retaining the number of shares as fully paid up to the extent of the amount paid up on the shares.
- Company might increase it's authorize share capital buy issuing new shares or right shares or bonus shares as per the decision of AGM and other legal provision. Similarly a company could reduce its share capital by repurchasing its own shares or by devaluating the face value of the share as per the decision of the AGM.

- A company might increase its capital by issuing preference share. But it should be clearly mention in the prospectus that the preference share is either cumulative or non-cumulative. And special types of voting rights, dividend rate, should be clearly mentioned.
- Preference share might be redeemable or non-redeemable. In redeemable preference share, maturity period should be mention. If company has any plan to issue convertible preference shares, the convertible rate and time should be mention in the prospectus.
- Company should refund the money of preference shareholders at the maturity period. If company could not do so, the amount should return with interest for the late period.

4. Securities Exchange Act 2063

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

Registration, sale and transfer of Securities

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

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

Public Issue of Securities

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

Contents, Approval and Publication of Prospectus

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

a. Securities issued by the NRB.

b. Securities issued under the full guarantee of Nepal Government.

c. Securities proposed to be sold to not more than 50 persons at a time.

d. Securities issued (by a corporate body) to its workers or employees.

e. Securities permitted by the Board to be issued and sold without publishing a prospectus.

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

Upon any harm or loss to an investor due to false or wrong information, made with malicious motives, in the prospectus, s/he may file a petition to the appropriate District Court for compensation within 35 days from the date of knowledge of the matter.

Information to Furnish

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

a. which are necessary to evaluate its financial condition

b. which can have an impact on the value of securities or on the business of the stock exchange

c. which are prescribed by the Board

2.1.14 Margin Lending Practices in Nepal

What is Margin Lending?

Buying on margin is borrowing money from a broker to purchase stock. We can think of it as a loan from our brokerage firm. Margin trading allows us to buy more stock than we would be able to normally. But margin lending is different from the margin trading. Margin trading is done by Brokerage firm but margin lending is done by bank or financial institution at the time of initial public Offerings. To trade on margin, we need a margin account in bank or financial institution. This portion of the purchase price that we deposit is known as the initial margin. We can borrow up to 90%. Be aware that some bank or financial institution requires us to deposit more than 10% of the purchase price. We can keep our loan as long as we want, provided we fulfill our obligations. First, when we sell the stock in a margin account, the proceeds go to our lender institution against the repayment of the loan until it is fully paid. Second, there is also a restriction called the maintenance margin, which is the minimum account balance we must maintain before your lender institution will force you to deposit more funds or sell stock to pay down your loan. When this happens, it's known as a margin call. Regrettably, margin able securities in the account are collateral. We'll also have to pay the interest on our loan. The interest charges are applied to our account unless we decide to make payments. Over time, our debt level increases as interest charges accrue against us. As debt increases, the interest charges increase, and so on. Therefore, buying on margin is mainly used for short-term investments. The longer we hold an investment, the greater the return that we needed. If we hold an investment on margin lending for a long period of time, the odds that we will make a profit are stacked against you. Not all stocks qualify to be bought on margin at the time of IPO

Margin Lending Practices Nepal

In Nepal, security market does not allow to do margin trading. So, an investor could not buy securities in credit in secondary market. Investors have to pay 100% cash to buy securities. Investors couldn't do short sale through the brokerage firm. SEBO could not bring any rules and regulations even it was established 13 years ago. However, the margin lending facilities were available in primary market. The rate of margin was different among the companies. From the past record, it is seen that bank and finance companies had financed up to 90% of the face value at the time of IPO. Not only the margin but also the interest rate and service charge are different in different companies. From few months ago, NRB stopped margin lending to bank and finance company because of too much over subscription. By the means of over subscription, issuing company has to bear high service cost. So, The NRB, regulator of bank and finance company stopped margin lending. But some co-operatives that register under co-operative act are still doing margin lending in Nepalese primary market indirectly. Interest rate of these co-operatives is higher than the bank and finance company. The interest rate is up to 20% whereas; the interest rate of bank and finance company was only up to 12%. Even a co-operative may charge different interest rate to different customers at the time of IPO.

2.2 Review of Related Studies

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

2.2.1 Review of International Journals/Articles

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

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

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

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

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

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

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

Kviback (2005) observes "Issues in local bond market development (Nepal Survey)" has concluded that the financial market in Nepal is relatively undeveloped. A tiny corporate bond market is in operation. The government market is more developed, but prices are not market oriented. He further concluded that the ability to

develop the local corporate bond market is seriously constrained by a weak supply and demand for the product. The number of Potential blue chip issues and size to the collective investor base are insufficient to
Create an institutionalized market and too few financial instruments are available in which to invest.

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

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

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

2.2.2 Review of Nepalese Journals

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

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

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

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

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

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

2.2.3 Review of Dissertations

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

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

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

i) Public response in primary market is high due to lack of opportunities for investment in other fields.

ii) No public are attracted towards shares than other securities basically to increase their value of investments, be it dividend gain or bonus shares.

iii) It can be seen that public response to primary issues on Banking and financial Sectors is normally higher than that of the manufacturing and services sector. There was poor response in the period 1995-1998 because interest rates were higher as compared to dividend yield, the public companies were not performing well, and people were unaware about the importance of investing in securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

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

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

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

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

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

2.3 Research Gap

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

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

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

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

"Research Methodology is the research method used through the entire study", (Kothari C.R, 1992:39).The main objective of the study is based on primary and secondary data. The basic objective of primary data analysis is to survey different investors attitude toward the IPOs. Secondary data were used on analyze the subscription pattern of corporate securities in primary market and reasons behind the highly oversubscription and undersubscription of corporate securities. The methodology consists of Research Design, The Selection of Sample, Source of Data, and Coverage of the Data, Data Analysis Tolls, and Others Statistical Tools.

3.2 Research Design

Kothari (2000), states that research design is a plan, structure and strategy of investigation concerned so as to obtain answer to researcher question and to control variance. This research is based on the analytical and descriptive design as well. For the analytical purpose, the annual reports published by SEBO/N, NEPSE and other concerned companies were collected for the year1995/96 to

2007/08. Primary data are also collected from questionnaire method for analysis purpose.

3.3 Population and Sample

The population for this study is the Initial Public Offering made by various organizations up to FY 2007/08. There are 142 companies listed in Nepal Stock Exchange Limited. To find out subscription pattern in the Initial Public Offering, this study has divided in two sectors as Financial Institutions and Insurance Sector and Non Financial Sector. The population is shown clearly in the following table.

Table 3.1

Population of the Study

S.N.	**Listed Institutions**	**No.**
Financial Institutions & Insurance Sector		
1	Commercial Banks	17
2	Development Banks	23
3	Finance Companies	55
4	Insurance Companies	17
Total (a)		**112**
Non Financial Sector		
1	Manufacturing & Processing Co.	18
2	Trading Companies	4
3	Hotels	4
4	Others	4
Total(b)		**30**
Grand Total (a+b)		**142**

If the samples are properly selected, the characteristics of the sample will reflect that the population. Due to unavailability of reliable data this study has completed upon the base of selected sample from each sectors. The sample have selected at random so that each and every Units of the population may have an equal and independent chance of being selected. In this method, the selection of the Units will totally depend upon the chance but not on the discretion of anybody else. Five companies have chosen randomly as sample from banking sector, six companies from development bank sector, fifteen companies from finance company sector. The sample size of financial institutions and insurance sector is 31. Similarly, five companies have chosen randomly as sample from non manufacturing and processing sector but no company is selected from hotel, trading and others sectors. The selected samples are shown in the following table.

Table 3.2

Sample selected from the population

S.N.	**Institutions**	**Population**	**Sample Size**	**Sample %** (Approximately)
1	Commercial Banks	17	5	30
2	Development Banks	23	6	26
3	Finance Companies	55	15	27
4	Insurance Companies	17	5	30
5.	Manufacturing and Processing	18	4	22
	Total	**130**	**35**	**27**

3.4 Sources of Data

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

a) Primary Source

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

b) Secondary Source

Secondary sources of data includes annual report of Security Board of Nepal, Statistical year book of Nepal, various publication of Nepal Stock Exchange, Income statement, Profits and loss account, Balance sheet of concerned companies, Dissertation, Previous Studies, Articles and Daily Newspapers. Some other important information has been collected from Internet of the related website.

3.4 Nature and Sources of Data

The require data for the study are collected from the primary and secondary sources. Securities Board Nepal is the main institution which provides most of the data required for the study. The web site of SEBO/N is http://www.sebo@ntc.net.np and its annual reports are the major sources of secondary data. Besides, necessary data are also collected from the annual reports of the selected companies, concerned issue managers, and annual report of Nepal Stock Exchange.

3.5 Data Presentation and Analysis

Primary data collected from individual, first of all raw information have been received after the collection of raw information the processing has been done. Then after all collected data has been grouped according to their nature, tabular and chart from selecting relevant data.

Data collected from secondary source were analyzed by using statistical tools like, bar diagrams, pie charts, arithmetic mean, standard deviation, coefficient of variation etc.

The analysis tools used for the analysis and presentation of data are as follows:

Multiple Bar- diagrams and graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are 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 values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angel of a circle is 360 degree and all components of the data are presented in terms of angels 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.

Simple Arithmetic Mean

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

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

Standard Deviation

The Measurement of the sectaries about an average is known as dispersion. The S.D. means a high degree of uniformity of the observations as well as homogeneity of the serried a large S.D means a high degree of uniformity of the observations as well as homogeneity of the serried a large S.D of different ratios are calculated. It is computed as:-

$$\text{Standard Deviation (SD)} = \sqrt{\frac{x^2}{n} \mathrm{Z} \quad \frac{x^2}{n}^{\;2}}$$

Co-efficient of Variation (CV)

The co-efficient of variation is the relative measure of dispersion comparable across distribution which is defies to the mean expresses in percent. It is

Calculated as:

$$\text{CV} = \frac{S.D}{Mean} x100$$

Test of Hypothesis

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

Types of Hypothesis

Null hypothesis

Alternative hypothesis

Null Hypothesis (H_0): $\overline{x_1} = \overline{x_2}$:- It always rejected the difference & accepts they (assumption value & actual value) are same i.e. There is no significance difference between average issue from financial sector and non-financial sector.

Alternative Hypothesis (H_1): $\overline{x_1} \neq \overline{x_2}$ **:-** Complementary of null is called alternative hypothesis i.e. there is significant difference between average issue from financial sector and non-financial sector.

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

-formulating hypothesis

) Null Hypothesis

) Alternative hypothesis

Z Computing the test statistics

Z Fixing the level of significance

Z Finding critical region

Z Deciding two-tailed or one tailed test

Z Making decision

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

t-test

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

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

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

The two samples are random and independent of each other.

The population variances are equal and unknown.

This test has been conducted to

i) Test of hypothesis on average issue amount between Financial Sector and non-financial sector.

ii) Test of hypothesis on correlation coefficient between the issue amount and subscription times on Nepalese IPO.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter includes the presentation and analysis of data. Analysis is based on both primary and secondary data. The primary data are used to analyze the public awareness, response and their attitude towards the subscription of corporate securities in IPO. The secondary data are used to analyze subscription pattern of IPO offered and amount of issue approved and finally presents comparison on Initial return to price changes on offered price on second and third day trading. All the analysis is based on simple statistical calculation.

4.1.1 Amount of Public Issue Offered

Securities Exchange Act provisioned that any company which foes for IPO must get issue approved from security board of Nepal prior to make their offer to public. Since first year of SEBON operation, FY 1993/94, it has given issue approval to 259 issues amounting Rs.21855.05 million till FY 2007/08 (SEBON, 2008: 30). As Securities Regulation provisioned, the company which got issue approval may commit their offer any time within two months form the date of issue approval. The amount of issue approved and the actual amount issued in a fiscal year may vary. Hence, for better result the study is focused on actual amount of issued in the fiscal year rather than the amount approved by the SEBON in that fiscal year. Amount of public issues offered during the study period along with its growing rates have been given in Table 4.1

Table 4.1
Amount of Public Issues

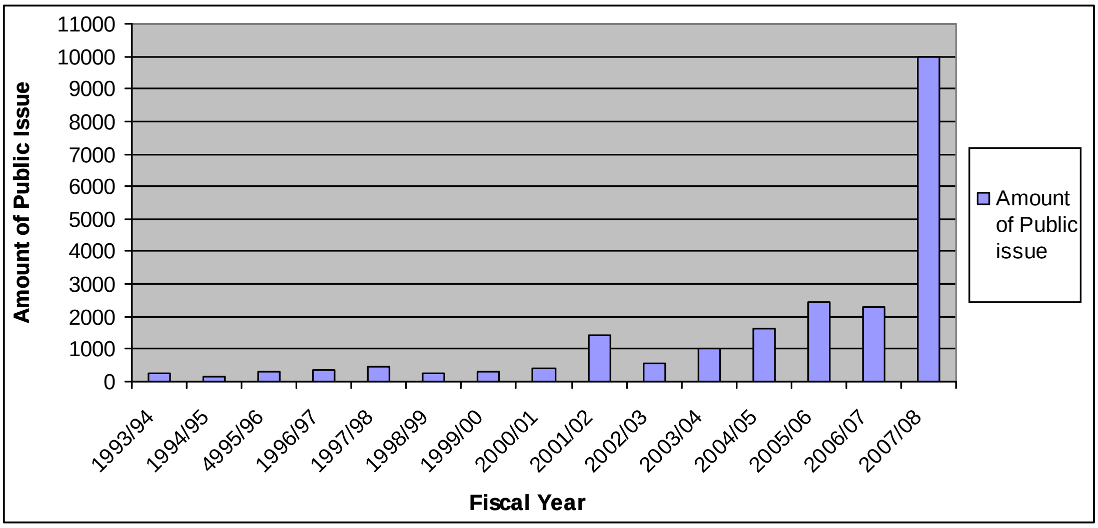
Rs. In million

Fiscal Year	Amount of Public issue(Rs.)	Annual Growth Rates (%)
1993/94	244.4	-
1994/95	173.96	(28.82)
4995/96	293.74	68.85
1996/97	332.20	13.09
1997/98	462.36	39.18
1998/99	258.00	(44.2)
1999/00	326.86	26.7
2000/01	410.49	25.58
2001/02	1441.33	251.24
2002/03	556.54	(61.39)
2003/04	1027.50	84.62
2004/05	1626.82	58.52
2005/06	2443.28	50.19
2006/07	2295.50	(6.01)
2007/08	9961.85	333.97
Total	**21855.05**	

Source: SEBON Annual Report 2007/08

Figure 4.1
Amount of public issue

From table 4.1, since first year of SEBON operation the amount of public issue have been fluctuating trend. In FY 1993/94 issue worth Rs.244.40 million were offered to



the public. The amount decreased to Rs.173.96 million in FY 1994/95. After that the amount of public issue showed rising trend although only for few years. It rose to Rs.293.74 million in FY 1995/96, Rs.332.20 million in 1996/97, and Rs462.36 in FY 1997/98. It again dropped to Rs.258 million in FY 1998/99 only to rise again in FY 1999/00 to reach 326.86 million. It continued to rise in two subsequent years i.e. FY 2000/01 and FY 2001/02 and reached Rs.410.49 and Rs.1441.33 million respectively. However, it dropped substantially in the following year i.e. FY 2002/03 and marked just Rs.556.54 million. But the year proved to be the end of falling trend, as the amount of issue offered showed continuously rising trend in the subsequent fiscal years. The amount of public issues was recorded Rs.1027.50 million in FY 2003/04, Rs.1626.82 million in FY 2004/05, Rs.2443.28 million in FY 2005/06, Rs.2295.5 million in FY 2006/07 and Rs.9961.85 million in FY 2007/08. While the lowest amount of public issue was Rs.173.96 million in FY 1994/95 and the total public issue during the study period was Rs.21855.05 million.

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

4.1.2 Number of Public Issues Offered

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

Table 4.2
Number of Public Issues

Fiscal Year	Amount of Issue	No. of issue	Average size	Annual growth rate (%)
1993/94	244.4	16	15.28	0
1994/95	173.96	10	17.4	13.87
4995/96	293.74	12	24.48	40.69
1996/97	332.2	5	66.44	171.4
1997/98	462.36	12	38.53	(42.01)
1998/99	258	5	51.6	33.92
1999/00	326.86	6	54.48	5.58
2000/01	410.49	9	45.16	(17.11)
2001/02	1441.33	12	120.12	165.99
2002/03	556.54	18	30.92	74.26
2003/04	1027.5	14	73.39	137.35
2004/05	1626.82	14	116.2	58.33
2005/06	2443.28	29	84.25	(27.5)
2006/07	2295.5	34	67.51	(19.87)
2007/08	9961.85	63	158.12	134.21
Total	**21855.05**	**259**	**84.38**	

Source: SEBON Annual Report 2007/08

Figure 4.2
No. of Public Issue

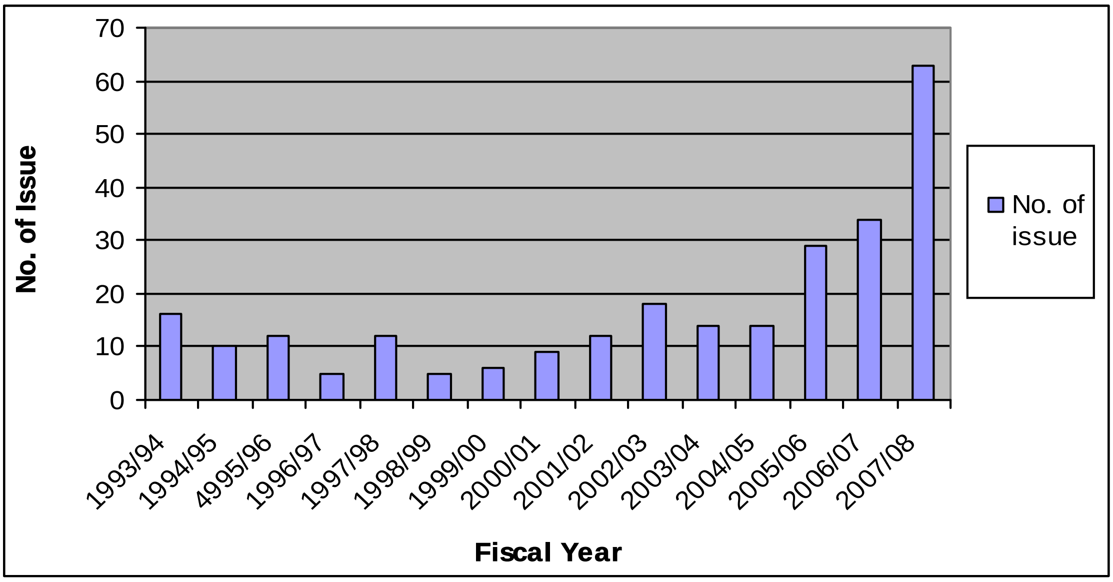


Table 4.2 revealed the no. of issues offered in each FY during the study period. Likewise the amount of public issue, the no. of issue offered in a FY also had not any consistent trend on the study period. During the entire study period the lowest no. of issue offered in a Year were 5 in two fiscal years,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

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

4.1.3 Publicly Issued Company

As per required NEPSE, issuing company should list their issues in NEPSE for allowing such issues to be traded on its trading floor. Since opening of NEPSE in FY 1993/94, 159 companies have already been listed where, out of these, 17 companies had de-listed from trading floor of NEPSE. So at the end of FY 2007/08, there were 142 companies listed in NEPSE. Total paid up value of these listed securities by the end of fiscal year 2006/07 reached Rs.29845.80 million which was Rs.21798.80 million in last fiscal year (2006/07). The most intriguing aspect of this total paid up capital the contribution from financial sector that includes commercial banks, development banks, finance companies and insurance companies is very high.

Table 4.3

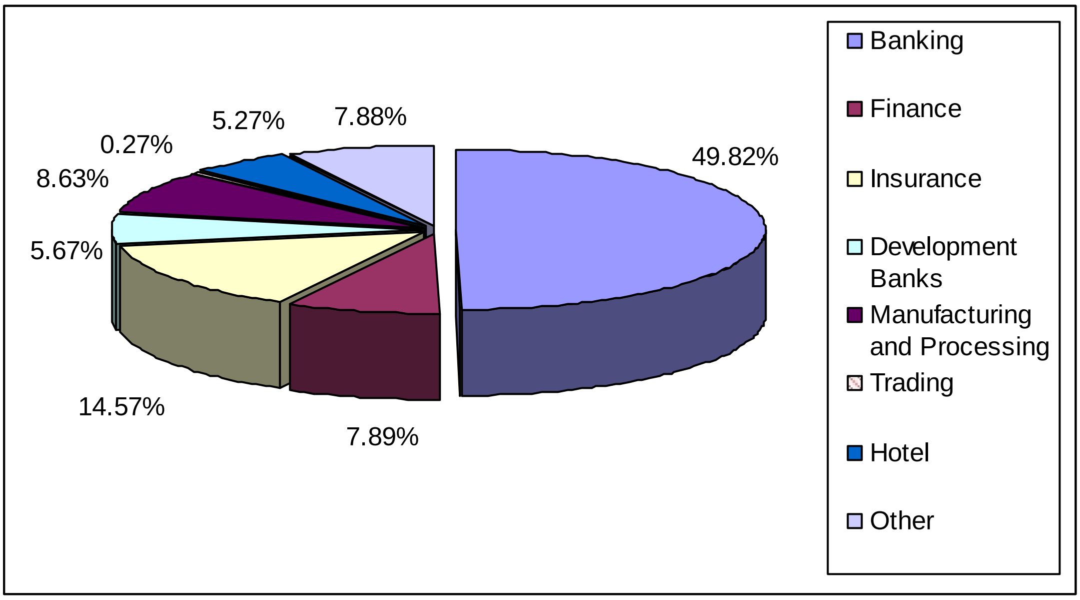
Publicly Issued Companies

S.N.	Sector	No of Public Issue	Paid up Value (in million)	Percentage
1	Banking	17	14667.3	49.78
2	Finance	55	2322.7	7.88
3	Insurance	17	4317.3	14.56
4	Development Banks	23	1669.7	5.67
5	Manufacturing and Processing	18	2539.7	8.62
6	Trading	4	78.4	0.27
7	Hotel	4	1552.9	5.27
8	Other	4	2337.8	7.87
Total		**142**	**29845.80**	**100**

Source: SEBON Annual Report 2007/08

Figure 4.3

Sector wise Public Issue



From the table 4.3, out of 142 listed companies, 112 companies belong to financial sector. From paid-up value perspective commercial banks occupies 49.78% (17) Development bank have 5.67% (23), Finance companies accounts for 7.88% (55) and insurance companies have 14.56% (17), altogether financial sector they accounting for 77.89%.

On other hand manufacturing and processing sector despite being third largest sector (in term of listed companies) account for only 8.62%. Similarly, trading, hotel and other sector account for 0.29%, 5.27% and 7.87% of total paid up value respectively. Together as non-financial sector they account for 22.21% of total paid up value.

4.1.4 Public Issue from Financial and Non-financial Sector

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

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

Table 4.4

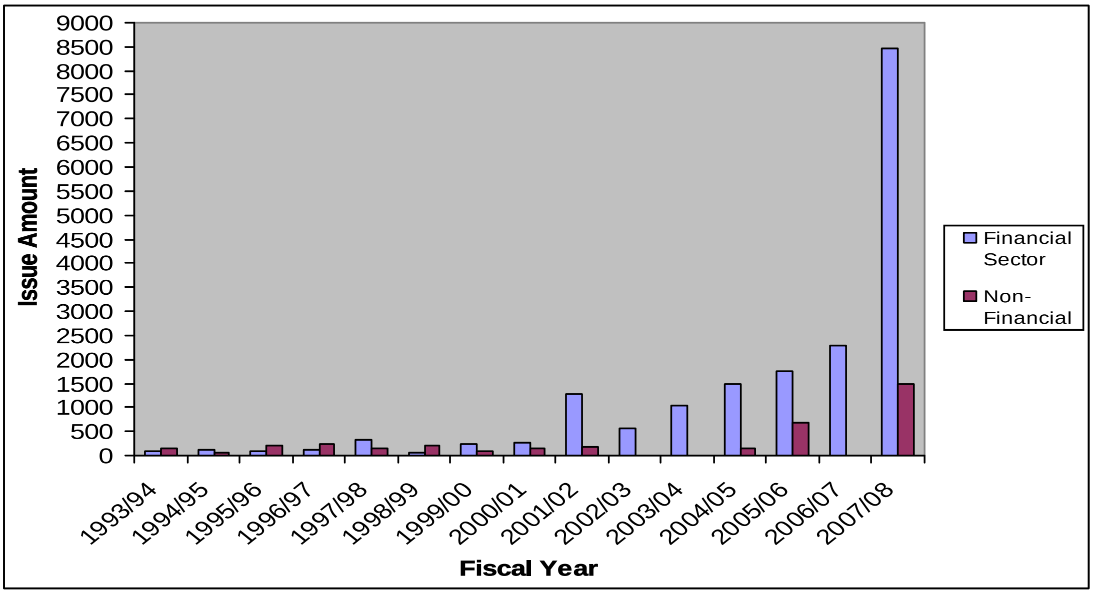
Public Issue from Finance and Non-finance Sector

Sector / Year	Finance			Non-finance			Total	
	No. of Issue	Amount (Rs. in million)	Annual Growth (%)	No. of Issue	Amount (Rs. in million)	Annual Growth (%)	No. of Issue	Amount (Rs. in million)
1993/94	6	87.8	-	10	156.6	-	16	244.4
1994/95	6	120	36.67	4	54	-65.52	10	173.96
1995/96	8	95.1	-20.75	4	198.6	267.78	12	293.74
1996/97	4	107	12.51	1	225.2	13.39	5	332.2
1997/98	9	315.5	194.85	3	146.9	-34.77	12	462.36
1998/99	3	58	-81.62	2	200	36.15	5	258
1999/00	5	237.3	309.14	1	89.6	-55.20	6	326.86
2000/01	8	260.5	9.73	1	150	67.41	9	410.49
2001/02	11	1267.9	386.72	1	173.5	15.67	12	1441.33
2002/03	18	556.5	-56.11	0	0	-100	18	556.54
2003/04	14	1027.5	84.64	0	0	0	14	1027.5
2004/05	13	1486.8	44.7	1	140	0	14	1626.82
2005/06	27	1759.4	18.33	2	683.9	388.50	29	2443.28
2006/07	34	2295.50	28.42	0	0	-100	34	2295.5
2007/08	62	8461.85	268.60	1	1500	0	63	9961.85
Total	**228**	**18136.65**		**31**	**3718.03**		**259**	**21855.05**

Source: SEBON Annual Report 07/08

Figure 4.4

Public Issues from Finance and Non-finance Sector



From Table 4.5 revealed that total of 259 public issues was made from finance and non-financial sector during the period. Out of this, total of 228 (88.03%) offers came from financial sector whereas rest 31 (11.79%) from non-financial sector. It means 88.03% public offers are from financial sector and rest 11.79% from non-financial sector. During the study period total of Rs. 21855.05 m issued to public. Out of it Rs.18136.65 m (82.98%) came from financial sector. Similarly, contribution from non-financial sector is Rs. 3718.03 m which is 17.02 % of total.

On an average, there are approx. 15 offers from financial sector on each Fiscal Year, while approx Just 2 from non-financial sector. Similarly, on an average public issue of Rs.1209.11 m came from financial sector while Rs.247.88 m from non-financial sector. These figures clearly show that the financial sector is dominant force of Nepalese IPO market. From the table it is clearly seen that financial sector were growing at 35.60% per year during the study period while non-financial sector were growing only at 16.26% per year.

Result of t-test

t-test deals with the small samples for testing hypothesis concerning population means, difference between two population means, as observed sample correlation coefficient etc. To test where the index between Finance and Non-finance Sector are differing or not t-test is performed. Since there are Finance and Non-finance sector and yearly 15 years are taken as the number of observation. The overall results these calculations are as follows:

Total no. of Observations	Calculated t-value	Degree of Freedom	Tabulated t-value	Result	Decision
15	1.73	28	1.70	Tab-t<Cal-t	H0 is rejected

Source: Appendix-2

The t-test for difference between two normal populations having the same means and equal population variances or there is significant difference between population means from which the sample are drawn. For this, t-test is done at 5% level of significant (one tailed test). From the table it is seen that calculated t-value is greater than the tabulated t-value, so null hypothesis (H0) is rejected at 28 degree of freedom. This implies that issue amount from financial sector is greater than issue amount from non-financial sector and it is noted that primary market is concentrated to financial sector than Non-financial sector.

4.1.5 Instrument-Wise Public Issues

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

Table 4.5

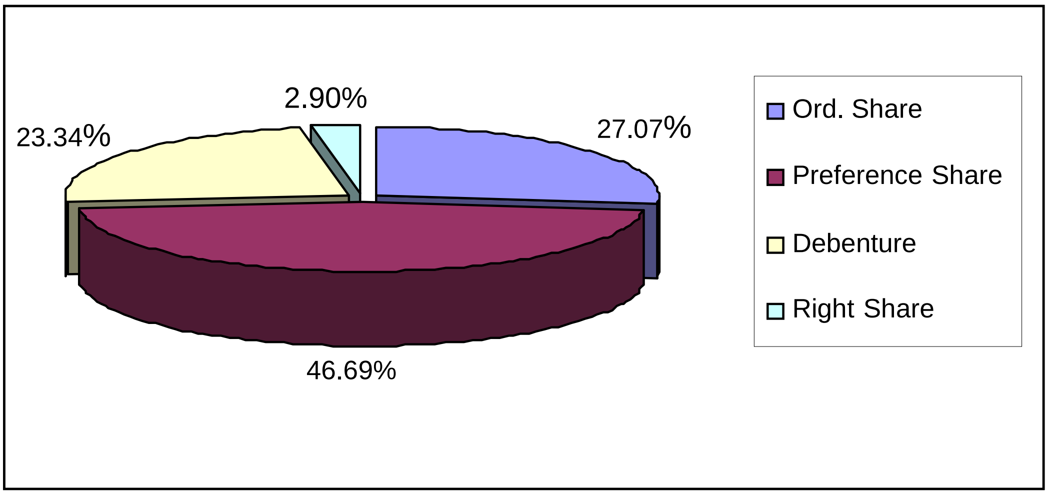
Instrument wise Issue

Fiscal Year	Ord. Share		Right Share		Debenture		Preference Share		Total	
	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)
1993/94	14	227.9	-	-	-	-	2	16.5	16	244.4
1994/95	10	173.96	-	-	-	-	-	-	10	173.96
1995/96	10	224.74	2	69	-	-	-	-	12	293.74
1996/97	2	57	3	275.2	-	-	-	-	5	332.20
1997/98	8	119.4	3	259.96	1	93	-	-	12	462.36
1998/99	3	148	1	30	-	-	1	80	5	258.00
1999/00	3	202.3	3	124.6	-	-	-	-	6	326.90
2000/01	7	278.7	2	131.8	-	-	-	-	9	410.50
2001/02	5	319.5	5	621.9	1	360	1	140	12	1441.40
2002/03	14	394.3	4	162.2	-	-	-	-	18	556.50
2003/04	10	657.5	3	70	1	300	-	-	14	1027.5
2004/05	7	1231.78	6	94.93	1	300	-	-	14	1626.71
2005/06	14	579.8	11	1013.5	4	850	-	-	29	2443.30
2006/07	15	380.3	17	1265.3	1	250	1	400	34	2295.6
2007/08	16	924.8	42	6087.1	5	2950	-	-	63	9961.90
Total	**138**	**5919.98**	**102**	**10205.49**	**14**	**5103**	**5**	**636.5**	**259**	**21854.97**
Percentage	**53.27**	**27.08**	**39.38**	**46.70**	**5.41**	**23.34**	**1.93**	**2.90**	**100**	**100**

Source: SEBON Annual Report 2007/08

Figure 4.5

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



As shown in Table 4.7, out of 259 offers during the sample period, 238 issues were ordinary shares, which is 53.27% of the total issue offered during the period. Similarly, 102 issues were right shares, which is 39.38% of total issue. Also 14 issues were debentures (5.41%) and 5 issues were preference share (1.93%). Hence from number of issues offered perspective, ordinary share was the most preferred instrument for issuing company, followed by right share, debenture and preference share respectively.

From issued amount perspective right share emerges as most used financial instrument with 46.70% of total issued amount. Second most used instrument was ordinary share occupying 27.08% of total amount followed by debenture 23.34% and preferred stock (2.90%) respectively.

The most striking aspect of the analysis has been the fact that preferences shares were issued only 5 times and debenture 14 times during the entire study period which covered 15 fiscal years. This study clearly showed that NEPSE Stock Market is highly dependent on few financial instrument likely ordinary share and right share. This over dependency, on one hand limits the boundary of investment opportunities to the public and on other hand, limits the overall development prospect of Nepalese stock market. At the same time this may also justify the selection of ordinary share as subject of this study.

4.1.6 Subscription Pattern (Over and Under) of Securities

When a company offers its issues to public, the demand received from pubic is bound to vary. When demanded number of shares is higher than the offered number of shares, it is called over-subscription and when the demanded number of shares is lower than the number of shares offered, it is called under-subscription. Similarly when the offered number of shares and demanded number of shares are equal it is the case of full subscription. More information regarding it has been it has been presented in table 4.6.

Table 4.6

Subscription Pattern of Securities

Fiscal Year	**Total no. of Issue**	**Over Subscription**		**Under subscription**		**Fully Subscription**		**unknown**	
		Co.	**%**	**Co.**	**%**	**Co.**	**%**	**Co.**	**%**
1993/94	16	15	93.75	-	-	-	-	1	6.25
1994/95	10	7	70	1	10	2	20	-	-
1995/96	12	5	41.67	6	50	-	-	1	8.33
1996/97	5	2	40	1	20	-	-	2	40
1997/98	12	5	41.67	5	41.67	1	8.33	1	8.33
1998/99	5	3	60	1	20	-	-	1	20
1999/00	6	5	83.33	1	16.67	-	-	-	-
2000/01	9	8	88.89	1	11.11	-	-	-	-
2001/02	12	5	41.67	4	33.33	2	16.67	1	8.33
2002/03	18	14	77.78	3	16.67	-	-	1	5.33
2003/04	14	12	85.71	2	14.29	-	-	-	-
2004/05	14	6	42.86	7	50	1	7.14	-	-
2005/06	29	17	58.62	10	34.48	2	6.9	-	-
2006/07	34	16	47.06	14	41.18	3	8.82	1	2.94
2007/08	63	19	30.16	32	50.80	3	4.67	9	14.28
Total	**259**	**139**	**53.66**	**88**	**33.97**	**14**	**5.40**	**18**	**6.94**

Source: Annual Reports of SEBO

As revealed from Table 4.7, total of 259 different companies issued different securities (Ordinary Shares, Right Share, Preference Share and Debenture) to the public during the study period of FY 1993/94 to FY 2006/07.

In the FY 1993/94 total of 14 companies issued their ordinary shares through IPO and all of them were oversubscribed and 2 companies issued Preference share (one over-subscribed, other had no information). In subsequent year, FY 1994/95, 10 companies went for IPO (Ordinary Share only), out of which 7 companies issue were oversubscribed, 2 of the issues were fully subscribed while remaining 1 issue was undersubscribed. Similarly, in FY 1995/96 out of 12 issues, 5 issues were oversubscribed, 6 issues were undersubscribed and remaining 1 was unknown. FY 1996/97 saw 5 companies issuing their securities through IPO and out of these, 2 companies experienced oversubscription, one has under-subscription and 2 has unknown. In FY 1997/98, out of 12 issues; issues of 5 companies experienced oversubscription, 5 issues experienced under subscription, one has fully subscription while remaining 1 issue was unknown. Similarly, in FY 1998/99 out of 5 issues, 3 were oversubscribed and 1 was undersubscribed where remaining 1 was unknown. In FY 1999/00, out of 6 issues; 5 issues were oversubscription while remaining 1 issue was under-subscription. This pattern was in FY 2000/01, out of 9 issues; 8 companies experienced and remaining one has under subscribed.

The table 4.8 further shows that during the period of Fiscal Year 2001/02 out of 12 issues, 5 issues were oversubscribed, 4 issues were under-subscribed, 2 were fully subscribed and remaining one was unknown. Similarly, in FY 2002/03 out of 18 issues, 14 issues were oversubscribed, 3 issues were undersubscribed and remaining 1 was unknown. However in FY 2003/04 total of 14 companies issued their securities through IPO and out of them 12 were oversubscribed and rest 2 was under-subscribed. In FY 2004/05 out of 14 issues; issues of 6 companies experienced oversubscription, 7 issues experienced under subscription and one has fully subscription. Similarly, in FY 2005/06 out of 29 issues, 17 were oversubscribed and 10 was undersubscribed where remaining 2 was fully subscription. Again in the FY 2006/07 total of 34 companies issued their securities and out of them 16 were oversubscribed, 14 was under-subscribed, 3 was fully subscribed and rest one is unknown. At the last FY year of the study period i.e. FY 2007/08, out of 63 issues, 19 issues were oversubscribed, 32 issues were under-subscribed, 3 issues were fully subscribed and 9 issues were unknown.

Hence, from the total of 259 issues, 139 issues representing 53.66% of total issues were oversubscription, 88 issues accounting 33.97% were under subscribed and 14 issues (5.40%) were fully subscribed where there was unknown about subscription pattern of 18 issues representing 6.94% of total no. of issue. On instrument wise basis, the ordinary share was oversubscribed most of the time in comparison to other securities. Where as in case of fully subscribed; right share and debenture capture about 2/3 part of the total number but right share under subscribed most of time. The total no of preference share issues there oversubscribed but there was no information about one issue and no of issue was small. These figures illustrate that most of the companies, which issued their ordinary shares through IPO during the study period experienced oversubscription of their issues. That fact may hint out why most companies prefer common shares to raise capital from general public rather than other securities.

4.1.7 Sector wise Analysis of Subscription Pattern

NEPSE has divided all the listed companies into eight different sectors: Commercial Banks, Development Banks, Finance Companies, Insurance Companies, Manufacturing and Processing Companies, Trading Companies, Hotel and Others.

However Table 4.7 depicts subscription state of issue from various institutions belonging to commercial banks, development banks, finance companies, insurance companies and manufacturing and processing companies only, rest of the sectors are excluded as the number of companies within these sectors became small after considering the time frame of the study.

Table 4.7

Subscription Pattern of Securities from Different Sector

SN	Sector	List of Companies	Issue Amt. (Rs. m)	Demand %	Subscrip-tion Times	Result
1	Commercial Banks	Bank of Kathmandu Ltd	45	536.33	5.36	Oversub
		Kumari Bank Ltd	150	811.35	8.11	Oversub
		Lumbini Bank Ltd	150	721.24	7.21	Oversub
		NCC Bank Ltd	210	122.10	1.22	Oversub
		Siddhartha Bank Ltd.	150	165.33	18.65	Oversub
2	Development Banks	Nirdhan Uthan Dev. Bank	3.30	388.12	3.88	Oversub
		Deprox Dev. Bank Ltd.	3.48	259.34	2.59	Oversub
		Gandaki Dev. Bank Ltd	15	397.51	3.98	Oversub
		Gorkha Dev. Bank Ltd.	96	10832	108.32	Oversub
		Annapurna Dev. Bank Ltd	29.40	2194	21.94	Oversub
		Himchuli Bikas Bank Ltd	12	13362	133.62	Oversub
3	Finance Companies	Annapurna Fin. Co. Ltd	2.00	2803.95	28.04	Oversub
		Yeti Finance Co. Ltd.	8	106.09	1.06	Oversub
		Samjhana Fin. Co. Ltd.	10.12	88.93	0.89	Undersub
		Nepal Housing Dev. Fin. Co. Ltd.	20	94.93	0.94	Undersub
		Lalitpur Finance Co. Ltd	9.5	146.75	1.47	Oversub
		Paschimanchal Fin. Co. Ltd.	8	171.80	1.72	Oversub
		Siddhartha Finance Co. Ltd.	8	1771.88	17.78	Oversub
		Alpic Everest Finance Ltd	5	4217.62	42.17	Oversub
		International Leasing & Fin. Co. Ltd	30	2170.67	21.70	Oversub
		United Finance Ltd.	24	1055.73	10.55	Oversub
		Standard Finance Ltd	24	362.54	3.63	Oversub
		Fewa Finance Ltd.	8	2355.00	23.55	Oversub
		Kist Merchant Banking	20	179.60	1.80	Oversub
		Birgunj Finance Ltd	24	704.48	7.05	Oversub
		Prudential Bittiya Sasthan Ltd.	24.50	113.34	1.13	Oversub
		ICFC Financial Institution Ltd	24.40	3506.00	35.06	Oversub
4	Insurance Companies	Neco Insurance Co. Ltd	20	121.05	1.21	Oversub
		Sagarmatha Insurance Co. Ltd	10.20	3322.17	33.22	Oversub
		Nepal Life Insurance Co. Ltd.	50	756.08	7.56	Oversub
		Prudential Insurance Co. Ltd	20	956.08	9.57	Oversub
		Siddhartha Insurance Co. Ltd.	25	6063.00	60.63	Oversub
5	Manufacturing and Processing	Unilever Nepal Ltd.	13.8	653.51	6.54	Oversub
		Birat Shoe Ltd.	5.00	394.30	3.94	Oversub
		Shreeram Sugar Mills	46.5	52.90	0.53	Undersub
		Leatherage Bansbari Tennery	15	71.15	0.710	Undersub
		Himalayan Distillery Ltd.	173.46	10.57	0.106	Undersub

Source: Annual Reports of SEBON

As revealed from Table 4.7, 6 sampled commercial banks the IPO of Siddhartha Bank got the highest demand with subscription times of 18.65 and IPO of NCC Bank experienced lowest demand with just 1.22 Times. Yet all the sampled firms had subscription times more than one indicating all the issues were oversubscribed.

Similarly 6 sampled companies from development bank sector had subscription times more than 3 suggesting IPO of development banks were also oversubscribed. The subscription time of Himchuli Bikas Bank is very high of 133.62 times. It is the highly demanded company during study period.

In case of finance company sector, among 16 sampled companies only 2 Companies: Nepal Housing Dev. Fin. Co. (0.94) and Samjhana Finance Co (0.89) had subscription times less than 1, indicating that IPO of the company was undersubscribed. All other companies' issues had subscription times of greater than one; hence all of those issues marked as high as 42.17 Times (Alpic Everest Finance) and as low as 1.06 times (Yeti Finance).

As far as insurance companies are concerned, out of 5 sampled companies, Neco Insurance Company had lowest subscription times of 1.21 while the Siddhartha Insurance Company had the highest subscription times of 60.63. However, all the sampled issues had subscription times of greater than one, so all the IPOs from insurance company sector were also oversubscribed.

But in the case of manufacturing and processing sector only 2 out of 5 sampled issues, Unilever Nepal Ltd (6.54) and Birat Shoe (3.94) had experienced oversubscription.

However rest 3 sampled issues Viz. Issues from Bansbari Tannery and shoe, Sri Ram Sugar Mills and Himalayan Distillery had subscription times less than 1, indicating IPO of these companies were undersubscribed. The subscription times for these companies were 0.71, 0.53 and 0.106 times respectively.

Hence in aggregate, all IPOs of commercial banks, development banks and insurance company sector were oversubscribed, indicating that IPO of these sectors were highly appreciated and demanded bye general public. Similarly, in the case of finance company sector, only 2 issues were undersubscribed rest of the issue is oversubscribed. Implicating that the IPOs fro this sector also received good response form public. Finance company sector is in large frame as compare to other four sector, so it could be asserted that in general, IPO from financial sector received good response from general public leading to oversubscription of the issues although few companies issue were undersubscribed during the study period. In contradiction, manufacturing and processing sector is the only sector representing Non-financial sector had disappointing response from the public to its issues. Most of the IPO were highly undersubscribed.

Although the number of sampled issues representing various sectors may be small, yet might just be good enough to render hint on why the number of IOPs are increasing from financial sector while it is exactly opposite for non-financial Sector.

4.1.8 Analyzing Underpricing of IPOs in Nepal

A large number of researches conducted in different part of the world over a different period of time have established that underprice does exist in IPO market, in this context, the study's concern is to see whether underpricing exist in Nepalese IPO or not. For the purpose of identifying the level of underpricing or initial return of the issues, J.R. Ritter's (1984) model has been used. In the model, initial return or level of underpricing is calculated bye subtracting offered price from first trading day's closing price of the issue and then dividing it by the offered price.

Table 4.8

Underpricing of IPO in Nepal

S.N.	Listing Date	Company Name	Offer Price	First Day's Closing Price	Initial Return %
1	09/22/1994	Ann. Finance Ltd	100	366	266
2	09/22/1994	Unilever Nepal Ltd.	100	485	385
3	01/23/1997	Yeti Finance Ltd	100	75	-25
4	04/10/1997	Universal Finance Ltd.	100	50	-50
5	07/17/1997	Bank of Kathmandu Ltd.	100	171	71
6	03/30/1998	NECO Insurance	100	99	-1
7	04/01/1998	Leatharage Bansbari	100	100	0
8	10/08/1998	Lalitpur Finance Co. Ltd	100	112	12
9	04/18/1999	Sri Ram Sugar Mills	100	50	-50
10	05/20/1999	Pashchimanchal Finance Co.	100	110	10
11	03/15/2001	Sagarmatha Insurance Ltd.	100	300	200
12	06/20/2001	Siddhartha Finance	100	220	120
13	12/10/2002	Alpic Everest Finance Ltd.	100	264	164
14	26/11/2002	International Leasing & Fin.	100	126	26
15	26/11/2002	United Finance Ltd.	100	123	23
16	01/22/2003	Nepal Life Insurance Co. Ltd	100	145	45
17	03/21/2003	Himalayan Distellery	100	231	131
18	04/24/2003	Nirdhan Utthan Bank Ltd	100	100	0
19	03/02/2004	Std. Finance Ltd	100	122	22
20	07/29/2004	Kumari Bank Ltd.	100	235	135
21	10/11/2004	Lumbini Bank Ltd.	100	134	34
22	10/11/2004	Prudential Insurance Co. Ltd.	100	150	50
23	28/12/2004	Kist Merchant Bank	100	100	0
24	03/20/2005	NCC Bank Ltd.	100	110	10
25	03/31/2005	Birgunj Finance Ltd.	100	103	3
26	05/29/2005	Diprox Dev. Bank Ltd.	100	120	20
27	02/23/2006	Prudential Bittiya Sasthan	100	125	307
28	02/24/2006	Siddhartha Bank Ltd.	100	307	115
29	06/26/2006	Gandaki Dev. Bank Ltd.	100	115	125
30	06/06/2007	Gorkha Dev Bank Ltd.	100	450	350
31	08/01/2007	Annapurna Dev. Bank Ltd.	100	150	50
32	09/18/2007	Himchuli Dev. Bank Ltd.	100	500	400
33	04/24/2008	ICFC Financial Institution	100	350	250
34	03/11/2008	Siddhartha Insurance Co. Ltd.	100	300	200
Average Equally Weight Mean Return					**87.56**

As seen in table 4.8, all the sampled companies had offered their issue at face value of ordinary share i.e. Rs.100, although there is provision to issue at premium (if condition meet). Neither of the companies had done so. As shown in table 4.9, most of the issues end of first day of trading at price higher than their offered price indicating that they were underpriced at the time of their issue.

Out of sampled 34 issues, 4 of the issues at the end of their first day trading at the price lower than their offer price suggesting that they were overpriced at the time of IPO. Similarly, 3 issues have their first trading day's closing price equal to their offered price so they are correctly priced at the time of IPO if we consider first day closing price and rest of 27 sampled issues have first trading day's closing price higher than their offered price indicating underpricing. among these underpriced issues, issue from Himchuli Development Bank has the highest initial return of 400% (highest underpricing issue) while issue Birgunj Finance Co. Ltd. has the lowest initial return of 3% (lowest underpriced issue). Hence, average initial return (equally weighted issue) for Nepalese stand for 87.56%. Looking at the underpricing of IPO in other markets, Gasbarro (2003) found that average first day underpricing of 10.6% Mauritius. Similarly, J. R. Ritter (1998) revealed that Singapore had average initial return of 31.4%, India of 35.3%, Taiwan 45% and Thailand of 58.1%. All these figures suggest that average first day return of IOP in Nepal has higher initial return than other Asian countries' initial return. However, the fluctuation in first day stock price return of Nepalese IPOs seemed to be quite higher indicating that the IPO first day returns of issue from Nepalese companies are more variable.

4.1.9 Sector wise Analysis of IPO Underpricing in Nepal

Table 4.9 depicts information reflecting different aspects of IPO underpricing of five sectors viz: commercial banks, development banks, finance companies, insurance companies and manufacturing and processing companies.

Table 4.9

Sector-wise Analysis of IPO Underpricing

SN	Sector	List of Companies	First Day Initial Return (%)	Average Initial Return (%)	S. D. (%)	C.V. (%)
1	Commercial Banks	Bank of Kathmandu Ltd Kumari Bank Ltd Lumbini Bank Ltd NCC Bank Ltd Siddhartha Bank Ltd.	71 135 34 10 207	91.4	71.55	78.28
2	Development Banks	Nirdhan Uthan Dev. Bank Deprox Dev. Bank Ltd. Gandaki Dev. Bank Ltd Gorkha Dev. Bank Ltd. Annapurna Dev. Bank Ltd Himchuli Bikas Bank Ltd	0 20 15 350 50 400	139.16	168.03	120.7
3	Finance Companies	Annapurna Fin. Yeti Finance. Nepal Housing Dev Lalitpur Finance Paschimanchal Fin. Siddhartha Finance Alpic Everest Finance International Leasing United Finance. Standard Finance Fewa Finance Kist Merchant Banking Birgunj Finance Prudential Bittiya Sasthan ICFC Financial Institution	266 (4) (50) (25) (12) 120 164 26 23 22 65 0 3 25 250	58.2	94.37	162
4	Insurance Companies	Neco Insurance Co. Ltd Sagarmatha Insurance Nepal Life Insurance Prudential Insurance Siddhartha Insurance	(1) 200 45 50 200	98.8	84.52	85.5
5	Mnf. and Processing Companies	Unilever Nepal Shreeram Sugar Mills Leatherage Bansbari Himalayan Distillery	385 (50) 0 131	116.5	168.52	144.65

Source: Appendix 3

Table 4.9 revealed that, among five sampled companies from commercial bank sector the highest initial return was 207% for IPO of Siddhartha Bank Ltd. and the lowest initial return was 10% of NCC Bank Ltd. The average initial return (equally weighted issue) for the sector was 91.4% and standard deviation was 71.55%.

Similarly, out of 6 sampled issues from development bank sector one company did not provide any return while the others yielded some initial returns at the time of IPO. Among the sampled companies IPO of Himchuli Bikas Bank provide highest initial return of 400%.The average initial return (equally weighted issue) for the sector was 139.17% and standard deviation was 168.03.

As far as finance companies are concerned, 4 issues out 15 issues had negative return. The initial return of sampled issues varied from 3% to 266%. The average initial return (equally weighted issue) for the sector was 58.2% and standard deviation 94.37%.

In the case of insurance company sector among 5 sampled companies, Neco Insurance Company Ltd. had negative return of 1%. All other remaining companies had positive initial return. The average initial return (equally weighted issue) for this sector was 98.8% and standard deviation 84.52%.

Finally, from manufacturing and processing sector's perspective, the initial return of its sampled issues ranged from -50% to 385%. The average initial return for the sector was 116.5%. This sector was highest standard deviation among five sectors. The standard deviation for this sector was 168.52%.

Now from the coefficient of variation's (CV) perspective, the lowest C.V. is of the commercial bank sector which was 78.28%, followed by insurance company sector with C.V. 85.5%, finance company with C.V. 162%, manufacturing and processing sector with C.V. 144.65% and finally, development bank sector with C.V. of 162% respectively. This indicates that initial return for the IPO from commercial banking sector has the lowest degree of variation and lowest risk as compare to other remaining sectors. On other hand average return from development banking sector has highest degree of variation and highest degree of risk. Thus it can be summarized that from C.V. perspective commercial banking sector carries lowest risk in its average initial return while development bank sector's initial return carries the highest risk among all five sectors.

4.1.10 IPO Underpricing and Subscription Pattern

Despite the fact that security regulation have made provision allowing issuing companies to offer their IPOs at premium (if condition meet), al the sampled companies were found to issue at face value of Rs100. Issue price is not field where merchant bankers could play in Nepalese IPO market. Considering all these facts, it is worth analyzing where there exists any relation between IPO underpricing and subscription pattern in Nepalese IPO.

Table: 4.10

IPO Underpricing and Subscription Pattern of Securities

SN	Sector	List of Companies	Subscription Times	Subscription Pattern	First Day Initial Return (%)
1	Commercial Banks	Bank of Kathmandu	5.36	Oversub	71
		Kumari Bank	8.11	Oversub	135
		Lumbini Bank	7.21	Oversub	34
		NCC Bank	1.22	Oversub	10
		Siddhartha Bank.	18.65	Oversub	207
2	Development Banks	Nirdhan Uthan Dev. Bank	3.88	Oversub	0
		Deprox Dev. Bank	2.59	Oversub	20
		Gandaki Dev. Bank	3.98	Oversub	15
		Gorkha Dev. Bank	108.32	Oversub	350
		Annapurna Dev. Bank Ltd	21.94	Oversub	50
		Himchuli Bikas Bank	133.62	Oversub	400
3	Finance Companies	Annapurna Fin. Co.	28.04	Oversub	266
		Yeti Finance Co.	1.06	Oversub	(4)
		Nepal Housing Dev. Fin.	0.94	Undersub	(50)
		Lalitpur Finance Co.	1.47	Oversub	(25)
		Paschimanchal Fin. Co.	1.72	Oversub	(12)
		Siddhartha Finance Co.	17.78	Oversub	120
		Alpic Everest Finance	42.17	Oversub	164
		International Leasing	21.70	Oversub	26
		United Finance	10.55	Oversub	23
		Standard Finance	3.63	Oversub	22
		Fewa Finance	23.55	Oversub	65
		Kist Merchant Banking	1.80	Oversub	0
		Birgunj Finance	7.05	Oversub	3
		Prudential Bittiya Sasthan	1.13	Oversub	25
		ICFC Financial Institution	35.06	Oversub	250
4	Insurance Companies	Neco Insurance Co.	1.21	Oversub	(1)
		Sagarmatha Insurance Co.	33.22	Oversub	200
		Nepal Life Insurance Co.	7.56	Oversub	45
		Prudential Insurance Co.	9.57	Oversub	50
		Siddhartha Insurance Co.	60.63	Oversub	200
5	Manufacturing and Processing	Unilever Nepal	6.54	Oversub	385
		Shreeram Sugar Mills	0.53	Undersub	(50)
		Leatherage Bansbari	0.710	Undersub	0
		Himalayan Distillery	0.106	Undersub	131

Source: Appendix 4

From table 4.10, incase of commercial banking sector, all 5 sampled companies issues were oversubscribed with subscription times 1.22 (NCC Bank), 5.36 (Bank of Kathmandu), 7.21 (Lumbini Bank), 8.11 (Kumari Bank) and 18.65 (Siddhartha Bank) respectively. Noticeable factor of this sector is that the NCC Bank received lowest subscription times and issue yield lowest initial return. Similarly, Issue from Siddhartha Bank received highest subscription times and highest initial return.

Similarly, all the sampled issue of development bank sector received oversubscription. Himchuli Development Bank had highest subscription times of 133.62 and it had also highest initial return of 400%. Although, Nirdhan Uthan Dev. Bank had subscription times 3.88, It initial return is 0% i. e. it was correctly priced at the time of IPO. The remaining 4 companies: Gandaki Dev. Fin. Co., Gorkha Dev. Bank, Annapurna Dev. Bank and Deprox Dev. Bank received the subscription times 3.98, 108.32, 21.94 and 2.59 with initial return of 15%, 35%, 50% and 20% respectively.

As for the finance companies sector, Annapurna Finance, Alpic Everest. Fewa Finance, Siddhartha Finance and ICFC Financial Ins. received phenomenal response to their IPO with subscription times 28.04, 42.17, 23.55, 17.78 and 35 respectively. These issues were the highest subscription times of finance companies sector. This issues were produced high first day return of 266%, 164%, 65%, 120% and 250% respectively. Out of 15 sampled companies, only one issue from Nepal Hosing and Development Finance Company was undersubscribed and it yielded negative initial return. Moreover, 3 of the oversubscribed issues also yielded negative initial return. Other remaining 7 companies issues were just marginally oversubscribed and initial return of these companies were in the range of 3% to 26% by comparing with first day closing price.

In case of Insurance companies sector, although all 5 sampled issues were oversubscribed, one of the issues yielded negative initial return. However, the issue that produces negative return was very marginal and also did receive very lowest oversubscription with just 1.21 times. Similarly Sagarmatha Insurance and Siddhartha

Insurance issues were highly oversubscribed with subscription times of 33.32 and 30.63 and yielded high initial return of 200% each. Other 2 remaining companies Nepal Life Insurance and Prudential Insurance had moderate subscription times of 7.56 and 9.57 with initial return of 45% and 50% respectively.

Finally, in case of manufacturing and processing company sector, out of 4 sampled companies only one company Unilever Nepal Ltd IPO was oversubscribed with high initial return of 385% but rest 3 companies' IPO were undersubscribed. Although the Himalayan Distillery's IPO was highly undersubscribed with subscription time 0.1, It First day initial return was 131%. The initial return of Sri Ram Sugar Mills was negative of 50% and the initial return of Bansbari latherage and Tannery was of O% i.e. it was correctly priced at the time of IPO by comparing with first day closing price.

All these analyze indicate that the IPO for those companies whose issue were oversubscribed tend to have at least some positive initial return even though few sampled issues may contradict it. Similarly the companies whose IPOs were oversubscribed tends to have negative or no initial return at all but in the most of the cases it is seen that the subscription pattern and initial return were highly positively correlated by 0.74.

Result of Significance Test of Correlation

The correlation coefficient (r) between the amount of issue and subscription of IPO was 0.74. The significance test of correlation is performed by the help of probable error and the overall results of these calculations are as follows:

Total no. of Observations	Correlation Coefficient	Probable Error(P.E.)	E.P*6.	Result	Decision
35	0.74	0.0516	0.30906	r>6*P.E.	r is significance

Source: Appendix 5

The correlation coefficient (r) between the subscription times and initial return was 0.74 and six times of probable error was only 0.3094. Since correlation coefficient (r) is greater than 6*P.E., so the positive correlation of 0.74 is significance.

4.1.11 Analysis of Price Change on Offered price on First, Second and Third Day of Trading.

On earlier part it has been seen that investors normally gain, if they prefer to sell their IPO share on first day of trading owing to underpricing.

However, in this section it ahs been attempted to analyze where investors would have to gained or lost if they would have decided to sell their IPO shares on first day of trading instead to sell them on second day or third day of trading.

Table 4.11

Price Changes on Offered Price on 1st, 2nd and 3rd Day of Trading

S N	List of Companies	Offered Price (Rs.)	Changes in Offered Priced on 1st Day trading (%)	Changes in Offered Priced on 2nd Day trading (%)	Changes in Offered Priced on 3rd Day trading (%)
1	Bank of Kathmandu	100	71	67	60
2	Kumari Bank	100	135	134	142
3	Lumbini Bank	100	34	29	25
4	NCC Bank	100	10	15	27
5	Siddhartha Bank	100	207	185	183
6	Nirdhan Uthan Dev	100	0	0	0
7	Deprox Dev. Bank	100	15	15	15
8	Gandaki Dev. Bank	100	350	345	345
9	Himchuli Bikas Bank	100	50	53	56
10	Gorkha Dev. Bank	100	400	410	411
11	Annapurna Dev. Bank	100	20	18	20
12	Annapurna Fin. Co	100	266	214	190
13	Yeti Finance Co	100	(4)	(9)	(7)
14	Nepal Housing Dev. Fin.	100	(50)	(49)	(45)
15	Lalitpur Finance Co.	100	(25)	(32)	(35)
16	Paschimanchal Fin. Co.	100	12	12	11
17	Siddhartha Finance Co.	100	120	131	142
18	Alpic Everest Finance	100	164	155	162
19	International Leasing	100	26	27	27
20	United Finance	100	23	25	22
21	Standard Finance	100	22	14	9
22	Fewa Finance	100	65	60	68
23	Kist Merchant Banking	100	0	5	7
24	Birgunj Finance Ltd	100	3	3	8
25	Prudential Bittiya Sasthan	100	25	60	52
26	ICFC Financial Institution	100	250	257	264
27	Neco Insurance Co.	100	(1)	5	6
28	Sagarmatha Insurance Co.	100	125	110	89
29	Nepal Life Insurance Co.	100	45	38	28
30	Prudential Insurance Co.	100	50	52	53
31	Siddhartha Insurance Co.	100	200	206	225
32	Unilever Nepal	100	365	300	278
33	Shreeram Sugar Mills	100	(50)	(50)	(55)
34	Himalayan Distillery	100	231	110	105
	Average Changes		**92.73**	**83.28**	**82.51**

Source: Appendix 4

As seen from table 4.11, out of 34 sampled companies' IPO, 16 companies had shown declination on the share price from first day of trading as against third day of trading. It means those shareholders who would have preferred to sell their IPO shares on third day of trading would have lost some share price comparison to those shareholder's who would have sold their share on the first day of trading.

Similarly, 3 out of 34 issues had shown no change in their share price on that day of trading. It means it would not have made any differences to shareholders whether they would have sold their share on either first day or third day of trading. Also issue from 15 sampled companies has shown inclination on their share price on third day of trading as compared to their first day of trading. It means those investors who would have sold their IPO share on third day of trading would have been better rather than selling them on first day of trading if share price are concerned.

The most intriguing aspect of the study has been the sharp decline in share price on IPO of three of the sampled companies which had provided high return on first day of trading Viz: Annapurna Finance, Unilever Nepal and Himalayan Distillery; These companies yielded high return of 266%, 385% and 131% respectively on their first day of trading. However these companies third day closing price were sharply declined to 190%, 278% and 5% respectively. It means those shareholders who would have sold their IPO shares on third day of trading would have lost considerably as against those who would have sold their IPO share on first day of trading.

Table 4.11 also reveals that as far as changes on share price on first, second, and third day of trading are concerned, its decline continuously. It is seen that average share price (equally weighted) decreased from 92.73% (first day return) to 83.28% second day return. It further decreased to 82.51% on third day of trading. The analysis renders the tentative view that investors are better off with selling their IPO share at first day of trading rather than selling them on second day or third day of trading. It means Nepalese IPO in short run (at least third day of trading) does under perform as far as their share price return are concerned.

4.2 Primary Data Analysis

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

Sources of Idea/Information about Primary Issue of Securities

With respect the idea/information about primary issue securities, majorities of respondents (72%) replied that they get information through media, 21% of them know through friends and relatives, 5% of them through issue managers and issuing companies and rest 2% know through other sources like stock brokerage firm, senior employee of the office and market.

Figure 4.6

Sources of Idea/Information about Primary Issue of Securities

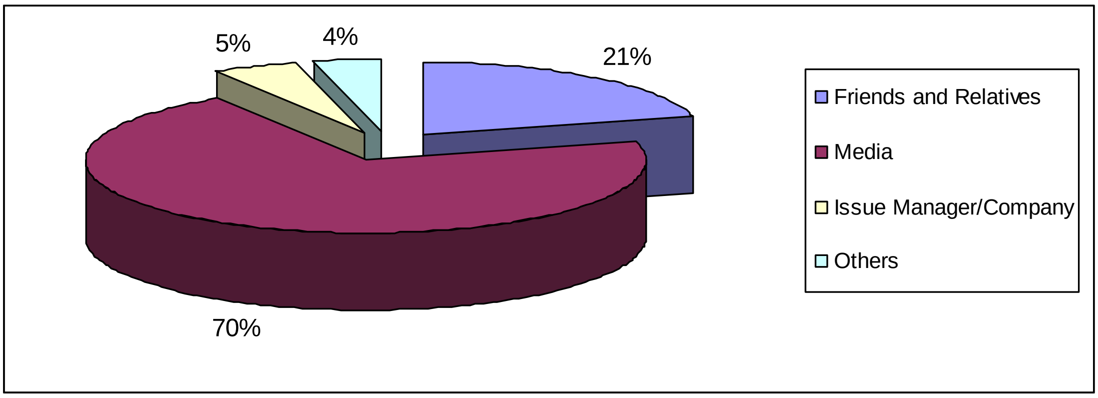


Figure Source: Appendix 6

Preferred Sector for Investment in Initial Public Offerings

In relation to the preferred sector for investment, most of respondents (66%) were interested in banking sector, 16% were interested in development bank sector, 8% were interested in finance company sector, 7% were interested in insurance companies sector and rest 3% were interested in others like manufacturing and processing, trading company sector.

Figure 4.7

Preferred Sector for Investment in IPO

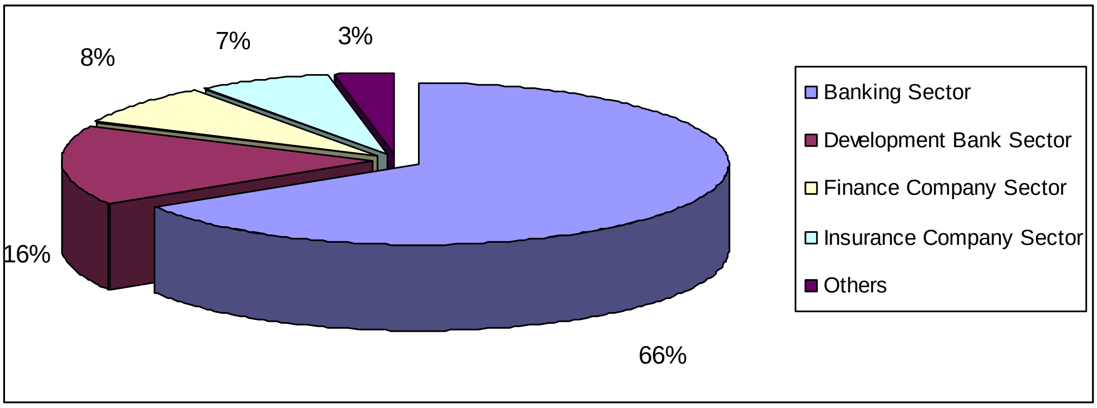


Figure Source: Appendix 6

Preferred Securities for Investment in IPO

In relation to the preferred Securities for investment, almost all respondents (92%) replied that they preferred common stock at the time of IPO, 5% said they prefer preference share and only 3% like to invest in corporate bond/debentures.

Figure 4.8
Preferred Securities for Investment

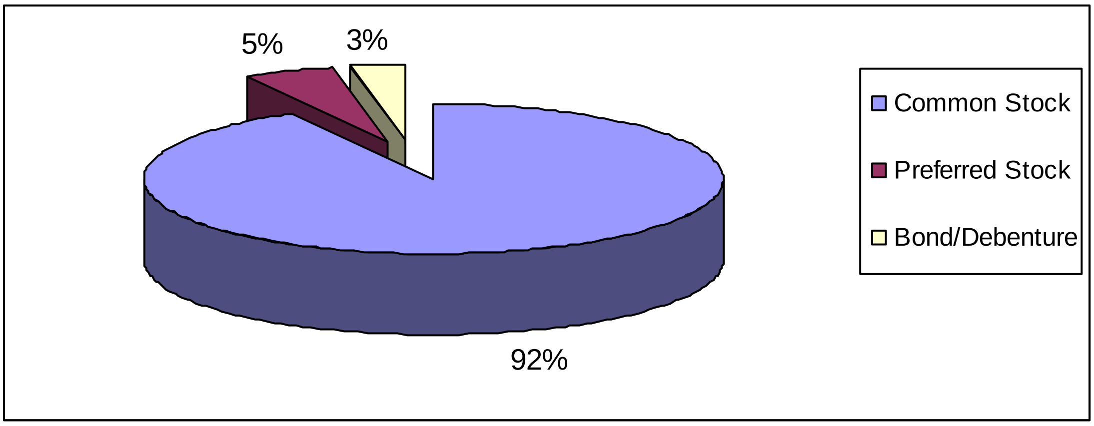


Figure Source: Appendix 6

Awareness about Performance of Issuing Company

In context to the awareness about performance of issuing company, 48% of the respondent replied that they have moderate knowledge about the issuing company, 16% of the respondent replied that they have no knowledge about the performance of the issuing company. 14% of the respondent replied that they have little knowledge about the performance of the issuing company and rest 10% of respondent replied that they have good knowledge about issuing company.

Figure 4.9
Awareness about Performance of Issuing Company

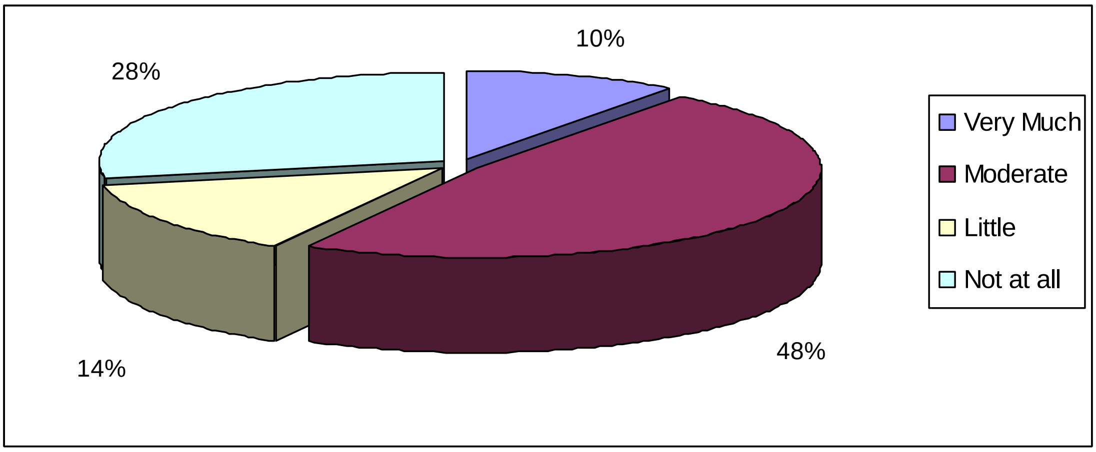


Figure Source: Appendix 6

Beneficiaries of Initial Public Offerings

with respect to the beneficiaries of IPO, majorities of the respondents (55%) replied that beneficiaries of IPO are investors. 30% of respondents replied in favor of issuing companies, 10% of respondents replied that beneficiaries is non other than issue companies, and in the remaining 5% respondent's view the beneficiaries of IPO is stock broker.

Figure 4.10

Beneficiaries of Initial Public Offerings

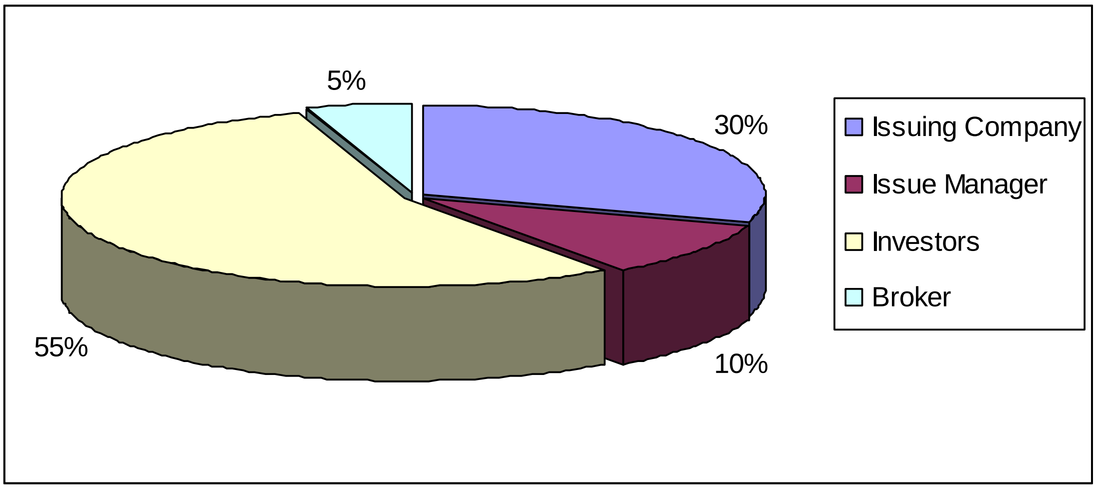


Figure Source: Appendix 6

Characteristics that help to invest at the time of IPO

Regarding to the public view that what characteristics help to invest in IPO, most of respondents (42%) thought that main reason is price appreciation, 28% of the respondents' view was due to dividend (cash and stock), 22% respondents replied that the motivating factor is right share, and few respondents (8%) view is due to no brokerage commissions.

Figure 4.11
Characteristics that help to invest in IPO

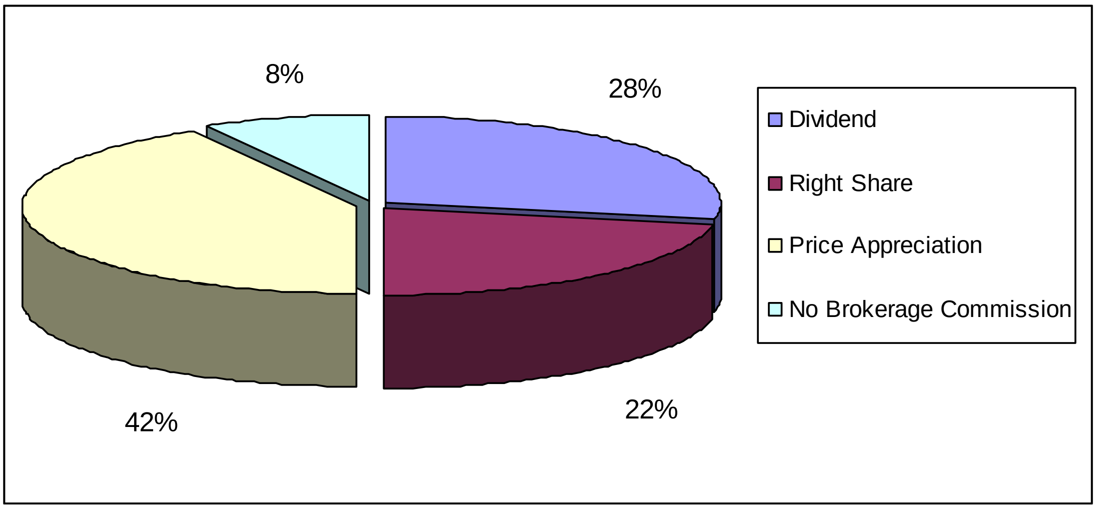


Figure Source: Appendix 6

Bases of Decision for Investment

Public were asked about the bases of decision for investment in IPO. majorities (48%) of respondents replied that decision for investment is based on friends and relative advices, 24% of the respondents preferred to take decision for investment on the basis of profitability of company, 16% of respondents used to run behind the market whim to take decision for investment and only 12% of the respondents' investment decision was based on market index,

Figure 4.12
Bases of Decision for Investment

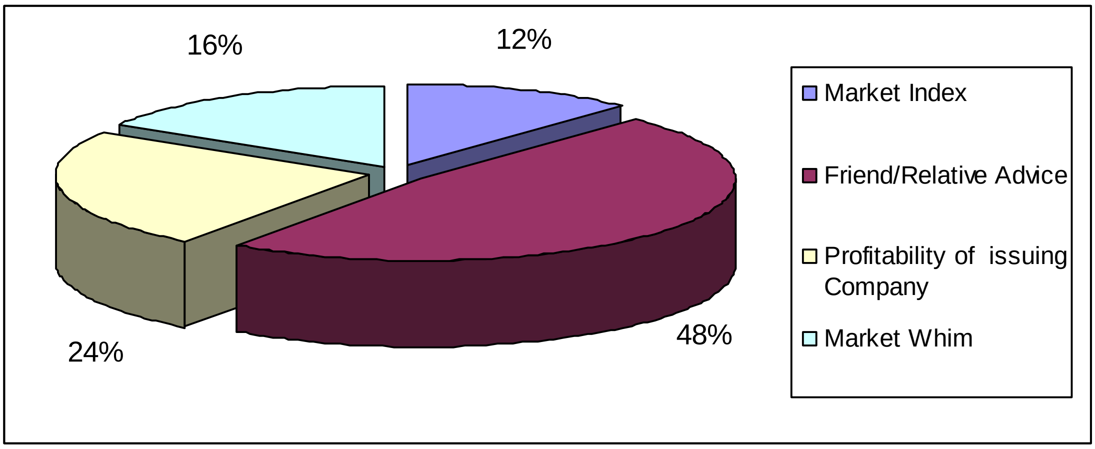


Figure Source: Appendix 6

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

The objective of this question is to know how the public think about the why the companies performing very well in the market do not like to go to public, 40% of the respondents think that most of the company do not like to go to issue their share to public because of sharing profit to public, 21% of the respondents think after issuing the share to the public management become complex, in 21% view the major cause is no statutory compulsion and 18% of the respondents replied that companies do not like obligation from mass shareholders.

Figure 4.13

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

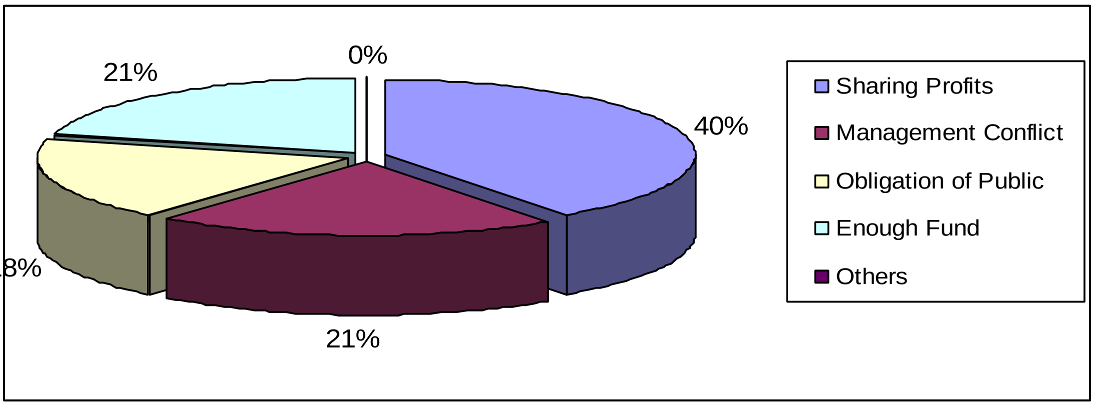


Figure Source: Appendix 6

Condition of Nepalese Primary Market

In context to condition of Nepalese primary market Very large portion of respondents i.e. 72% replied that Nepalese primary market is slowly growing, 16% of the respondents replied that Nepalese primary market in steady stage i.e. it is constant and only 12% respondents replied that it is rapidly growing.

Figure 4.14

Condition of Nepalese Primary Market

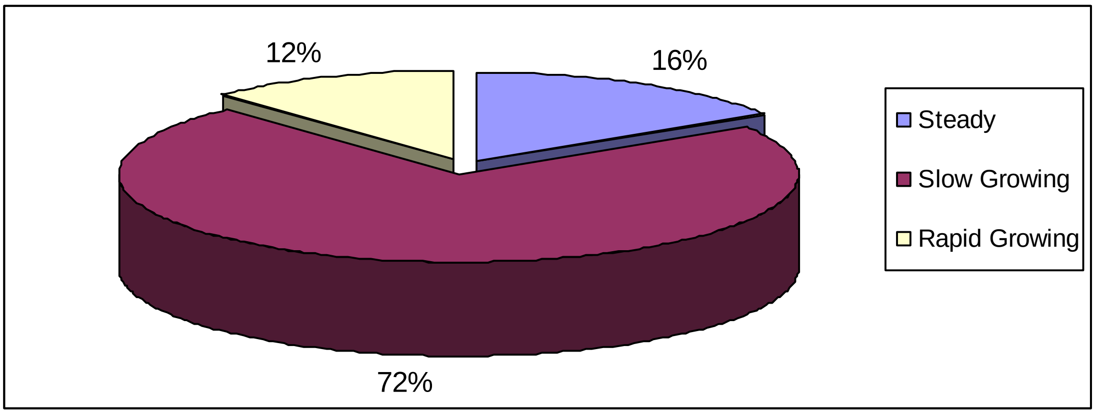


Figure Source: Appendix 6

Cause of Oversubscription in IPO

In relation to the cause over application of primary issue of securities, 35% of public said the main reason of oversubscriptions his due to high future return form IPO, 28% of respondents stated that they have lack of investment opportunities in other sectors, 25% of respondents answer was low interest rate on bank deposit, and only 12% of public view towards oversubscription was due to corporate image.

Figure 4.15

Cause of Oversubscription in IPO

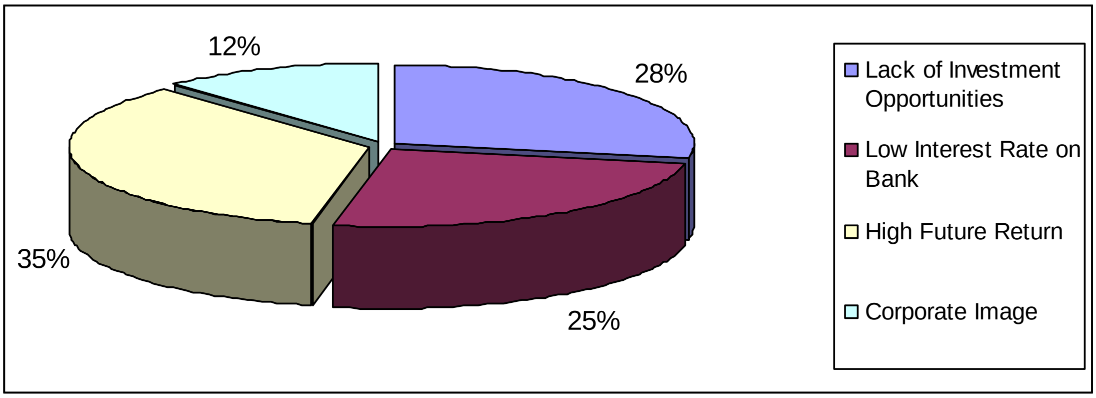


Figure Source: Appendix 6

Problem of Nepalese Primary Market

With respect to the major problem of Nepalese primary market, majorities of the respondents (51%) replied that it is due to political instability, 18% of them replied that it was due to unconfident investors, 14% respondent think that it was due to lack of supervision from regularity bodies, 9% of respondent pointed the slow privatization process and 8% of the respondents replied that it is due to unfavorable microeconomics condition of the country.

Figure 4.16

Problem of Nepalese Primary Market

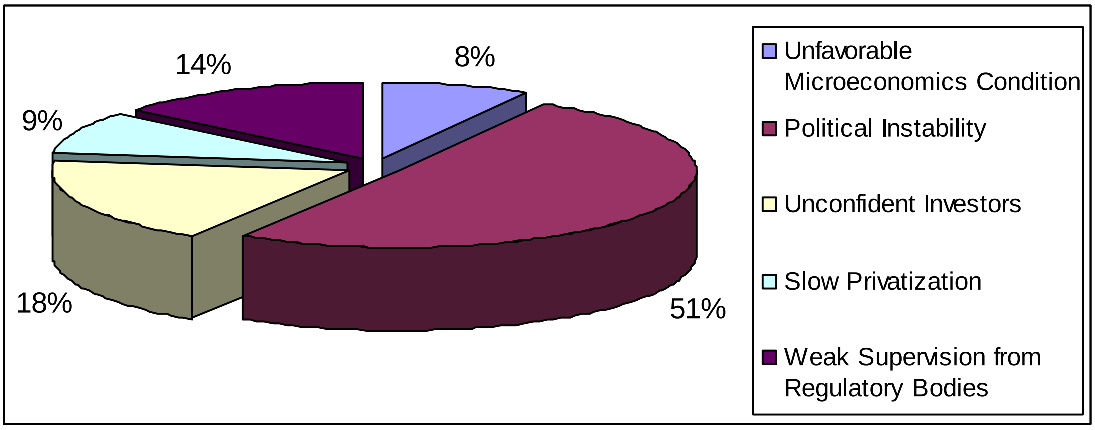


Figure Source: Appendix 6

4.3 Major Findings

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

1. The amount of issues offered has increased from Rs.244.40 m in FY 1993/94 to Rs.9961.85 m in FY 2007/08. The compound growth rate of amount of issues offered is found to be 28.04%. During the period, the number of issues offered increased from 16 in FY 1993/04 to 63 in FY 2007/08. Similarly the average

size of issues offered increased from Rs.15.28 m in FY 1993/94 to Rs.158.12 m in 2007/08. It has compound growth rate of 16.86%.

2. The highest amount of issues approved by SEBO/N for the public subscription during the FY 2007/08 of Rs.9961.85 m where lowest amount of issue approved for the public subscription is in FY 1994/95 of Rs.173.96 m. Similarly, the highest no. of issue approved by SEBO/N is 63 in FY 2007/08 and lowest no. of issue is 5 in FY 1996/97.

3. Among 8 sectors, commercial banking sector has accounted for 49.78% of total paid up capital while second highest contributor finance company sector has accounted for 14.65% of total paid up capital. Again, financial sectors that comprises commercial banks, development banks, finance companies and insurance companies has accounted for 228 offers (out of 259) while non-financial sector that comprises manufacturing and processing, trading companies, hotels and others has accounted for only 31 offers. Similarly, approximately 15 issues have been offered by financial sector as against only 2 offers from non-financial sector in each fiscal year during the study period.

4. As far as instrument-wise offer is concerned, out of 259 offers, 138 (53.27%) offers have been ordinary shares, while 102 offers (39.38%) from right share, 14 offers (5.41%) from debentures and 5 offers (1.93%) from preference share. Moreover, from issue amount perspective, ordinary share has accounted for 27.08% of total amount, right share has accounted for 46.70%, debenture has accounted for 23.34% and preference share has accounted for 2.90% if total amount.

5. During the study period 259 issues has offered their securities through IPO to public. Out of which 139 (53.66%) issues offered has received oversubscription.

Similarly, 88 (33.97) Issue offered has received undersubscription while only 14 (5.40%) issue offered has received fully subscription and 18 (6.94%) issue offered has unknown. Furthermore, sector wise analysis of subscription pattern revealed that an issue from commercial banks, development banks and insurance companies has been oversubscribed. Also, most of the issues from finance companies have been oversubscribed. But issues from manufacturing and processing sector have mostly been undersubscribed. Among the listed companies, Himchuli Bikas Bank's IPO is the most demanded by public in the history of capital market. Its subscription time was 133.64. Similarly, Himalayan Distillery's IPO is least demanded by public. Its subscription times was only 0.106.

6. By using J. R. Ritter's (1984) model, it has been found that average level of underpricing (1^{st} day return) of Nepalese IPO is 87.56% (equally weighted issues). Among sampled issues, Himchuli Bikas Bank has high initial return of 400%. Where issue from Yati Finance and Sri Ram Sugar Mills has lowest initial return of negative 50% each.
7. Among 35 sampled issues, 31 issues have been oversubscribed and 26 of those oversubscribed issue have produced positive initial return. However, remaining 4 issues have been undersubscribed and 2 undersubscribed issues have produced negative initial return. But highest undersubscribed issue from Himalayan Distillery (0.106 times) has highly positively initial return of 131%. Similarly, 4 oversubscribed issues have negative initial return and one oversubscribed and one undersubscribed issue have zero initial return.
8. As far as the price changes on offered price on first, second and third day of trading is concerned, out of 34 sampled companies, share price of 16 companies

have decreased in third day of trading as against first day of trading. Only 3 companies' share prices have shown no change on third day of trading as against the first day of trading. Furthermore, 15 sampled companies have shown inclination on their share price on third day of trading as compared to their first day of trading. The average price change from offered price on first day of trading (initial return) is 92.73%, which has decreased to 83.28% on second day of trading and further decreased to 82.51% on third day of trading.

9. The primary sources of data shows that the major source of information about IPO is media. Similarly people are more attracted towards common stock rather than other securities because of highest expected return.
10. Most of the people (48%) have moderate awareness about performance of company which going to offer securities and in 42% of people view, expected price appreciation increase the subscription times in IPO.
11. 48% of the people invest in primary market by taking advice with their friends and relatives. Furthermore, in 55% people view, beneficiaries of IPO are investors.
12. In 72% respondents view, Nepalese primary is slowly growing. 35% of people think that high future return is the main cause of oversubscription in IPO.
13. 40% respondents think that companies do not like to go to public because of reality of sharing profit with others. 51% people think that political instability is the major problem of Nepalese primary market.

CHAPTER V

SUMMARY CONCLUSION AND RECOMONDATIONS

5.1 Summary

Money or capital in financial vocabulary is one of the most important perquisites for any business entity. Business entities need capital at various stage of their performance. Some may need to establish their business while other may need it to diversify their activities and achieve their ambitious growth plan. Generally there are two types of market for business entities to get secure capital. They are money market and capital market. In money market, funds are available only for short time, maximum of one year but in capital market funks are available for long term. Furthermore there are two types of capital market, primary market and secondary market. Primary market is the market for new and unseasoned whereas secondary market is the market for the existing and seasoned securities.

Initial Public Offering (IPO) is the key mechanism of primary market. IPO is the first time issue securities to the public by the companies. Securities may be debt or equity. Various components of capital market play important roles in practice and procedure of IPO. Investment bankers or underwrites are one among them. Investment bankers are individual or institutions who provide an array functions to ensure that companies are able to meet their objectives of issuing securities through IPO.

As far as practices in Nepal, Securities Board guide and influence IPO process. SEBON is the regulatory body of Nepalese stock market and Stock Exchange Limited is the trading body. Before going to public, the business entity must be approved from SEBON. After getting approval, issuing company must give its information to the Nepal Stock Exchange and Company Register's Office.

Issuing entity is free to choose one or more than one issue managers for the purpose of issuing securities. Issue manager has to publish a public notice in the national daily newspaper to offer public for investment. The novice must be published seven days before the application form distribution date. The issue manager has to publish and distribute the prospects. After studying prospectus, public will decide whether to invest in security or not. The application period must not more than one month. If issue managers think the require application have collected, they can close anytime agree one week to receive application. If over application is received, the distribution of share should be decided through allotment procedure. For this purpose additional 30-70 days can be taken. After allotment the issue manager has to refund the money of those whose application has not been accepted with interest. With in 30 days of refund period share certificate has to be distributed.

The basic objective of this study is to analyze subscription pattern of securities in initial public offering; this study also focuses on the dealing process and pace of the initial public offerings in Nepal.

Conceptual review of the study has covered concept of IPO, illustrating IPO along with its advantages and disadvantages. IPO as mechanism of primary market, IPO and its historical perspective in Nepal and process of IPO, which shed lights on how IPO is being practiced in Nepal. Similarly review of related studies has covered the research works carried out abroad along with dissertations relating to subject matter. Research work carried out in abroad in the form of journal-articles. Similarly dissertations were accessed from Central Library of T.U., Library of Shanker Dev Campus.

For the purpose of meeting the objectives of the study, it has use descriptive and analytical research design and stratified random sampling. The sampling frame of 35 companies' IPO representing 5 different sectors; commercial banks, development banks, finance companies, insurance companies and manufacturing and processing companies listed in SEBON has been selected.

The primary and secondary, both types of data are taken to analyze the objective of the study. Primary data are taken from direct questionnaire provided to the general investors. Secondary data are taken from the publication of SEBON, NEPSE and various merchant bankers.

Similarly, simple statistical tools like mean, standard deviation, correlation of coefficient, coefficient of variation and t-test have been used to analyze related data.

The analysis of amount of issues being offered and no. of issue being offered have revealed that Nepalese IPO have grown during the study period. According to the Securities Board, 259 issues have approved for public issue until the fiscal year 2007/08. Currently there are 142 listed companies in Nepal Stock Exchange. In fiscal year 2007/08, 63 issues have approved by SEBON for the public issue. Public issue from financial sector is higher than that of non-financial sectors so it dominating Nepalese IPO market. On instrument wise analysis, it is identified that ordinary share is the most preferred instrument. The analysis also revealed that most of the issues offered during the study period were oversubscribed. By using J. R. Riter's (1984) model, it has been seen that underpricing does exist in Nepalese IPO market with average initial return of 87.56%. This finding is quite higher than average initial return of other emerging markets of Asia. It is also found that there exist relationship between subscription patterns and underpricing. Most of the oversubscribed issues produced positive return while most of the undersubscribed issue did not produce any positive return at all. From the analysis of percentage change from offer price at first day of trading, initial return goes on declining on second and third day of trading. It means investors are better off selling their IPO at first day of trading rather than selling its on second or third day of trading.

The primary source of data shows that the major sources of information of public offering media. These days' publics are getting aware to primary market to choose right sector for investment. They invest in primary sector with the main expectation of price appreciation in future. The main reason for oversubscription is due to lack of investment opportunities which attracts towards IPO for investment. Majority of people think that political instability is the major cause for slow growing of Nepalese primary market.

The subscription pattern in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards common stock to increase their value of investment.

5.2 Conclusion

On the basis of findings of the study we find that Nepalese capital market is in developing stage. Most of the public in Nepal do not have sufficient information regarding the primary market but sill they have interest to invest their money in primary market so the most of the securities are issued in oversubscription. It is the good sign to the expansion primary market. Due to this, most of the companies are issued only common stock where bond, preference share and convertible are rarely in practice but option and warrants are still not in practice. This shows that the securities market is dominated by common stock.

As per the study financial sector which comprises commercial banks, development banks, finance companies and insurance companies has dominated Nepalese IPO market. As raveled by issue amount and number of issues, pace of IPO in Nepal seems to be irregular. As about issued securities, IPO from Himchuli Bikas Bank is the most oversubscribed issue with 133.62 times and IPO from Himalayan Distellery is the most undersubscribed issue with 0.106 times among the sample companies.

Underpricing does exist in Nepal and average level of underpricing (equally weighted mean) is much higher that other emerging market of Asia. It means Nepalese investors do make money from IPOs. On the other hands, higher the underpricing, the higher will be the wealth loss of promoters. This might have prevented the potential issuers from going public. Similarly, most of the oversubscription issues have yielded some initial return and most of the under-subscription issues have not yielded any initial return. It concludes that the issuing companies whose issues are overwhelmingly demanded by public, do justify their support through high initial return on first day of trading. As revealed from percentage change in offer price on first, second and third day of trading the high initial return on first day of trading has not been maintained on second and third day of trading rather it keeps on declining. So, investors are better off selling their IPO shares on first day of trading rather than selling them on second or third day of trading.

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

5.3 Recommendations

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

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

- To be successful in the stock market, investor should always be clear to his strength, weakness, requirements, wishes, risk taking capability and how to react on different and ever changing market conditions and they should not buy the shares of a company until they know details about it.
- Even though most of the IPO issues were found to be under-priced, there were few issues, which were found to be overpriced. This could have been due to the fact that regulations in the past and existing regulations too have not fully authorized investment bankers to determine price of their issues. In this regard, it is recommended that regulatory body should allow IPO market to set their offer price. Free market can cause competition among the issuing company forcing them to make their offer at lower price which will attract more investors benefiting capital market in long term.
- Buy and sell group of investor are recommended to sell their IPO share at first day of trading rather than selling them on second or third day of trading.
- Independent rating agencies should be encouraged to establish so that the potential investors will have a confident picture of the financial health and future prospects of organizations.

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