

**A STUDY OF INITIAL PUBLIC OFFERING FROM GENERAL  
INVESTORS PERSPECTIVE**

A Thesis

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## RECOMMENDATION

This is to certify that the thesis:

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**A Study of Initial Public Offering form General Investors Perspective**

has been approved by this Department in the prescribed format of Faculty of Management.

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## VIVA-VOCE SHEET

We have conducted the viva voce examination of the thesis

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**“A Study of Initial Public Offering form General Investors Perspective ”**  
And found the thesis to be original work of the student written in accordance with prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master’s Degree in Business studies (M.B.S).

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**TRIBHUVAN UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
**GLOBAL COLLEGE OF MANAGEMENT**

**DECLARATION**

I hereby declare that the work reported in this thesis entitled “A Study of Initial Public Offering from General Investors Perspective” submitted to Global College of Management, faculty of management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the Supervision of **Gogendra Goet**, Lecturer of Global College of Management.

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**Bharat Timilsina**  
**Researcher**

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## ABBREVIATIONS

|        |   |
|--------|---|
| ABBL   | Annapurna Bikas Bank Ltd                        |
| ADB    | Asian Development Bank                          |
| ADBL   | Ace Development Bank Ltd.                       |
| AFL    | Api Finance Ltd.                                |
| AGM    | Annual General Meeting                          |
| AVHDCL | Arun Valley hydropower Dev. Co. Ltd.            |
| BDFIL  | Business Development Financial Institution Ltd. |
| BIL    | Beed Invest Ltd.                                |
| B/S    | Balance Sheet                                   |
| BPPNL  | Brikuti Pulp & Paper Nepal Ltd                  |
| BSL    | Birat Shoe Ltd                                  |
| BTIL   | Balaju Textile Industries Ltd.                  |
| BVS    | Book Value per Share                            |
| CBIL   | Citizens Bank International Ltd.                |
| CCML   | Civil Capital Markets Ltd.                      |
| CEDBL  | Clean Energy Development Bank Ltd.              |
| CFL    | Crystal Finance Ltd.                            |
| CHCL   | Chilime Hydro Power Co. Ltd                     |
| CIT    | Citizen Investment Trust                        |
| CMFIL  | Civil Merchant Financial Institution Ltd.       |

|         |   |
|---------|---|
| CMBFL   | Capital Merchant Banking & Finance Ltd. |
| DCBL    | Development Credit Bank Ltd.            |
| EBL     | Everest Bank Ltd.                       |
| ECL     | Elite Capital Ltd.                      |
| EFI     | Emperial Financial Institution          |
| EICL    | Everest Insurance Co.Ltd                |
| EPS     | Earning Per Share                       |
| FY      | Fiscal Year                             |
| GBL     | Global Bank Ltd                         |
| GDBL    | Gorkha Development Bank (Nepal) Ltd.    |
| GDP     | Gross Domestic Production               |
| HGICL   | Himalayan General Insurance Co. Ltd.    |
| HBBL    | Himchuli Bikas Bank Ltd                 |
| HDL     | Himalayan Distillery Ltd                |
| HTIL    | Himgiri Textile Industries Ltd          |
| ICFC-FI | ICFC Financial Institution              |
| IDBL    | Infrastructure Development Bank Ltd.    |
| IME-FI  | IME Financial Institution Ltd.          |
| IPO     | Initial Public Offering                 |
| KFL     | Kaski Finance Ltd.                      |

|        |  |
|--------|--|
| LBL    | Laxmi Bank Ltd                           |
| LGICL  | Lumbini General Insurance Co. Ltd.       |
| LTD.   | Limited                                  |
| LUBL   | Lumbini Bank Ltd                         |
| MBBL   | Malika Bikash Bank Ltd.                  |
| MBL    | Machhapuchhre Bank Ltd                   |
| NBICL  | NB Insurance Co. Ltd                     |
| NCML   | NIDC Capital Market Ltd                  |
| NEFL   | Nepal Express Finance Ltd                |
| NEPSE  | Nepal Stock Exchange                     |
| NFCL   | National Finance Co. Ltd.                |
| NFCL   | Nepal Finance Co. Ltd.                   |
| NHCL   | National Hydropower Co. Ltd              |
| NICBL  | Nepal Industrial and Commercial Bank Ltd |
| NLICL  | Nepal Life Insurance Co. Ltd             |
| NMBBL  | NMB Bank Ltd.                            |
| NSBIBL | Nepal SBI Bank Ltd.                      |
| NSMBL  | Nepal Sri Lanka Merchant Bank Ltd.       |
| NSMCL  | Nepal Share Markets Co. Ltd.             |
| OHL    | Oriental Hotels Ltd                      |

|         |                                      |
|---------|--------------------------------------|
| PBBL    | Pashupati Bikas Bank Ltd.            |
| P/E     | Price Earning Per Share              |
| P/L A/C | Profit And Loss Account              |
| PFCL    | Prabhu Finance Co Ltd                |
| PICL    | Prudential Insurance Co. Ltd         |
| RMBFL   | Royal Merchant Banking & Finance Ltd |
| SABBL   | Sahayogi Bikas Bank Ltd              |
| SBB     | Swabalamban Bikas Bank               |
| SBBL    | Sanima Bikas Bank Ltd                |
| SBL     | Siddhartha Bank Ltd                  |
| SEBON   | Security Board of Nepal              |
| SEC     | Security Exchange Centre             |
| SICL    | Shikar Insurance Co. Ltd             |
| SICL    | Sagarmatha Insurance Co. Ltd.        |
| SSML    | Shreeram Sugar Mills Ltd             |
| T.U.    | Tribhuvan University                 |
| TRHL    | Taragaon Regency Hotels Ltd          |
| UFL     | United Finance Ltd.                  |
| VBBL    | Vivor Bikas Bank Ltd.                |

# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the Study

Capital market plays a vital role in the developing nation's economy. The primary share market is the market for new issue of securities. It is the media through which new financial assets are issued or generated. This is the first issue market that attracts investors to invest in the shares of the issue companies. The success of the capital market depends on primary market and this ultimately provides a basis for multiple transactions in secondary market. After securities have been purchased from the primary market, they can be traded in the secondary market. The secondary market comprises the organized security exchanges and a specialist facilitates the transaction. The major of all capital market transaction occur in the secondary markets. The proceeds from sale of securities in ht secondary markets do not go to the o rganizational issuer instead to the initial owners (sellers) of the securities. Nepal Stock Exchange Limited (NEPSE) is only the secondary market in Nepal.

The major function of the stock market is to provide steady and continuous market purchase and sale of securities at a competitive price by importing marketability and liquidity. It is also a medium through which scattered saving and scares resources and transferred into productive areas that ultimately help to the economic development and industrializa tion of the country. Investment means the sacrifice of current rupees for the future rupees in which two different attributes are generally involved i.e. time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if any and the magnitude it's generally uncertain. In some cases the element of time predominates (for example government bonds). In other cases risk is the dominant attribute (for example call options on common stocks). In yet others, both time and risk are important (for example shares of common stock).

Initial Public Offering (IPO), also referred to simply as a “public offering”, it when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately -owned companies looking to become publicly traded. A company that is thinking about going public



should start acting like a public company as much as two years in advance of the desired IPO. Several steps experts recommend include preparing detailed financial results on a regular basis and developing a business plan. Once a company decides to go public, it needs to pick its IPO team, consisting of the lead investment bank, an accountant and a law firm.

The IPO process officially begins with what is typically called an “all-hands” meeting. At this meeting, which usually takes place six to eight weeks before a company officially registers with the Securities & Exchange Commission, all the members of the IPO team plan a timetable for going public and assign certain duties to each member.

Initial Public offering (IPO), also referred to simply as a “Offering” or “flotation”, is when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. In an IPO the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market.

An IPO can be a risky investment. For the individual investor, it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. However, in order to make money, calculated risks need to be taken.

For the investors Initial Public offering (IPO) is also an option. 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.

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. Most companies start out by raising equity capital from a small number of investors, with no liquid market existing if these investors wish to sell their stock. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to "go public" by selling stock to a large number of diversified investors. Once the stock is publicly

traded, this enhanced liquidity allows the company to raise capital on more favorable terms than if it had to compensate investors for the lack of liquidity associated with a privately held company. Existing shareholders can sell their shares in open-market transactions. With these benefits, however, come costs. In particular, there are certain ongoing costs associated with the need to supply information on a regular basis to investors and regulators for publicly traded firms. Furthermore, there are substantial one-time costs associated with initial public offering that can be categorized as direct and indirect costs. The direct costs include the legal, auditing, and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public. In Nepal the first public issue of ordinary shares took place more than 50 years back with the public issue of Biratnagar Jute Mills and Nepal Bank Limited. in 1937 A.D. But the development of capital market started in 1976 A.D., after the establishment of Security Exchange Centre 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 Centre dealt in the securities as a broker as a broker as well as a regulatory body. The Centre used to take; buy and sale only on orders from interested investors and confirm them if a price and quantity matched. There was no time limit within which a deal took place. It normally took one day to three weeks. Due to this, general public faced problems while buying selling shares. The Security Exchange Centre issued 62 companies' shares from the year of its inception to 1999 A D. Among these 23 companies were undersubscribed including Nepal Med. Ltd., Nirmod Pharmaceuticals Ltd, Harisiddi Brick and Tile Ltd., Himgiri Textile Ltd, Banswari Leather and Shoes Factory Ltd., Nepal Awas Bikash Bitta Company Ltd., and Yeti Finance Co. 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 bank and finance companies were overwhelming.

Security Exchange Centre was converted into Stock Exchange Limited in 1994, and under its support, the broker system of secondary market was establishes. Until December 2009, out of 32

brokerage firms, 23 firms are doing their job regularly. Nepal Stock Exchange Limited is a non profit organization. It operates under Security Exchange Act 1983. The basic objective of the Nepal Stock Exchange Limited is to impart free marketability and liquidity to the government bonds and corporate securities. With the establishment of full fledged Stock Exchange, the shares, which the public had held for decades, become liquid. Capital market is gaining business attention since last few years. The NEPSE index, which shows the stock price trend of all the listed securities in the stock market, has been increasing in the recent fiscal years. Hence, the general investors are very keen to make investment in the securities of the companies, through both primary and secondary markets. In primary market, the investment is made through public issues of ordinary shares, preference shares, debentures and right shares as well as mutual fund and unit's scheme.

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

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

Security Exchange Center was converted into Stock Exchange Limited in 1993 and with this broker system for secondary market came in existence. The basic objective of Nepal Stock Exchange Ltd is to impart free marketability and liquidity to the government bonds and corporate

securities. With the establishment of full fledged stock exchange. The shares which the public held for the decades became liquid.

The securities related Act, 2006, has incorporated a provision that requires the public companies to register all the securities with the SEBON before their issuance. It also made mandatory for issuing companies to prepare and publish prospectus after getting SEBON approval.

In order to implement the provisions relating to registration of securities of public companies and approval of prospectus under the Securities Related Act, 2006 SEBON enacted Securities Registration and Issuance Regulation, 2008 since November 12, 2008.

Features of Securities Registration and Issuance Regulation, 2008

- Provisions for registering securities in SEBON including promoters' shares proposed to issue to public by the public limited companies.
- Incorporated more advance provisions for the process of public issue, issue by circular and rights issue.
- Incorporated clear provisions for the issuing securities to other than public.
- Incorporated the provisions requiring SEBON approval of offer for sale (offer documents) before issuing securities to public held by other groups than the securities held by promoters and public by using tender offer or at any other agreed upon price.
- Incorporated the provision for prescribing the format of the prospectus by SEBON required to be published for issuing securities and provision requiring SEBON approval of prospectus before publishing.
- Incorporated the provisions of accountability of the directors of issuer company, issuer manager and the professional preparing prospectus to the authenticity of the contents of the prospectus, and relating to the aspects of making more credible and transparent prospectus.
- Provisions for seeking comments of stock exchange on prospectus and other related documents for rights issue, and documents of offer for sale submitted in SEBON for approval and registering the prospectus in stock exchange after SEBON approval.
- Provisions for submitting annual report trimester report and price sensitive information to SEBON in the prescribed format by the issuer companies not yet listed and listed.

To safeguard rights and interests of the investors by making securities issue fair, credible and transparent, SEBON has enacted Securities Issue Guidelines since March 22, 2009 in pursuant to section 118 of Securities Related Act, 2006

Features of Securities Issue Guidelines, 2009

- Clear definition of various terminologies related to securities issue.
- Provisions to be underwritten at least 50% of the issuing shares by the public company.
- Incorporated clear provisions for the process of preference share, rights share and debenture issue,
- Incorporated the clear process for further public issue and securities issue on premium.
- Incorporated clear provisions about the allotment of shares within minimum time span of 40 days to maximum 70 days on the basis of applications numbers after the closure date of securities issue,
- Provisions to refund amount within five days after allotment.
- Incorporated clear provisions to allot 2% to 5% shares to its employees depending upon the number of employees of the issuing companies out of total issue of shares.

## 1.2 Focus of the Study

In the investment environment, obviously there are a lot of investment alternatives, some want to invest on real assets, some on different ventures, some start their own company, and so on. The study focuses on the IPO only, those which are available for the Nepalese investors, and it tries to find out the responses towards IPO. It also focuses on what the y actually wants in IPO before they actually invest their sector preference, their knowledge level, their attitude toward various aspects of investment, and performance of issue managers. It also focuses in the distribution process of IPO, restriction on margin lending as IPO funding via financial institutional loans is not a healthy practice as it does not reveal the true picture of the company, pricing of IPO at par value of Rs. 100 rather than premium, IPO as a quick way to make money rather then long term investment and the Nepalese IPO market is heavily influenced by whim and rumor. Single IPO applicant may be placing several applications using the identification documents of many other individuals. As a result they can capture large number of shares and can influence the company management and stock market.

### 1.3 Statement of the Problem

Nepalese capital market is very small in comparison with other developed stock markets. There are a few numbers of brokers, limited number of listed companies, very few transactions and most importantly investors are unknown about the pros and cons of the stock market. If there occur a single malpractice in the functioning of securities market, the whole capital market may damage the national economy badly and if once the investors confidence were lost it would be very difficult to bring it in original condition.

There are various types of obstacles existing in initial public offering stages in Nepal. In developed country, generally people are aware of public offering. However, in developing country like Nepal Initial Public Offering is still a new phenomenon. More than 50 percent of people are still uneducated. They do not know what public offering is. Why should they invest their money in Stock?

Still more than half of Nepalese citizens are under the line of literacy. And among the literate ones as well maximum do not know anything about the practice of stocks. They do not know what securities mean at all. How can we expect them to invest in securities? And even among the aware people there is still a lack of confidence level. They do not want to take risk. In developing country like Nepal, IPO is still a new phenomenon.

One of the most important features of the Nepalese IPO market is that most retail investors are speculators who bet their money on any kind of IPO without properly analyzing the offer documents. This is partly due to the lack of diversity of stocks in the market which is dominated by the stocks of banks and financial institutions. Most IPOs are from this sector. Most IPO subscribers in Nepal are short-term investors who are interested to sell the stocks as soon as they are listed in the stock exchange. Therefore, most of the people view an IPO as a quick way to make money rather than a long-term investment.

Transparency and governance is another problem in the IPO market of Nepal. In recent trend, the investor investing in the IPO many times more than the issue. The control mechanism is weak and there is rampant misuse of personal identification documents. One IPO applicant may be

placing several applications using the identification documents of many other individuals. These people are creating an artificial crisis, which in turn, the share price is more than their book value.

To control this, Security Board of Nepal (SEBON) recently introduced a new set of rules, in order to make the IPO transparent. Now it is compulsory for each retail investor to have a bank account and to furnish attested copies of citizenship certificate. Also the issue managers are required to part the application money in an account with the Nepal Rastra Bank for three days after the IPO has been closed. This is meant to discourage the practice of collecting applications not backed by application money. If an applicant does not get the stock allotted on his /her name, the money is returned to him/her by issuing a check payable in the bank account mentioned in the application form. Also the issuing company must give the interest for the applied money during the period between applying date and allotment date.

To control the excessive over subscription in the IPOs, the Nepal Rastra Bank has issued directives to banks and financial institutions restricting them from extending easy loan to invest in IPOs. For example, it has restricted banks loan to invest in IPO. Since most IPOs are open only for 5-7 days as during that period they are oversubscribed, this rule practically stops banks from providing loan to a client to invest in IPO. However, this has not stopped retail investors from availing loans from cooperatives and through other personal sources.

The problem towards which this study is directed is to identify the investor's responses towards the IPO of financial as well as non-financial sector in Nepalese market, how is primary market growing in Nepal, how are the issue managers performing in IPO, generally what an investor expects from his or her investment, how to invest in IPO and how to manage fund for IPO. Etc.

There are various types of obstacles existing initial public offering stages in Nepal. In developed country, generally people are aware from public offering. Therefore, many problems are found in the field of public offering in Nepalese stock market rather than other developed countries.

Besides these, there are other factors, which slow down the pace of stock market growth in Nepal. They are:



Political instability  
Unfavorable macroeconomic conditions,  
Unconfident investors,  
Lack of institutional investors,  
Lack of trained and qualified manpower,  
Insufficient knowledge of investors about the security market.  
Weak tax system and slow privatization process

#### **1.4 Objectives of the Study**

The overriding objective of the study is to study about the initial offering or primary issue of shares in perspective of Nepal and find out the investors' responses and preference. To be more specific, this study keeps the following objectives.

- To study of primary share issue and the performance of the investment bankers (issue managers) in the process of initial public offering in Nepal.
- To know which type of company's IPO the investors prefer the most.
- To conduct an opinion survey regarding investors responses and preferences.
- To suggest and recommend to the concerned authorities and investor

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

This study is being undertaken to evaluate the problem and prospect to Nepalese primary share market. This study seems to be helpful to the prospective investors and the organization in the field of public Offering as there is still lack of study regarding IPO in Nepal. This study will assist in the formulation of policy and will assist the policy makers to get the practical knowledge of existing rules and regulations.

From this study, investors will have more clear conception over their investment and they will be able to make a right choice. It will also be helpful to the students who want to make research in IPO.

This study will be significant to analyze the legal provision, possibilities, problems and prospects of IPO in Nepal. It will also be helpful to know the investors response to IPO of different industries. The prospective offering company may also get significant knowledge from this



study. It may able to know the reasons for inconstant fluctuation Initial Public Offering in Nepal. It also helps to find out the financial status of publicly going companies.

### **1.6 Limitations of the Study**

The study is carried out for the partial fulfillment of Master in Business Studies programme of Tribhuvan University. It focuses to analyze certain aspects of primary share market in Nepal. Studies and references are limited in the perspective of Nepalese capital market. Time and resources are also constrain during the study

This study of public response regarding IPO has some limitations as well. They are: -

- This study takes the secondary data also, so the accuracy of research depends upon the reliability of the data.
- The data are used only up to 2008/09.
- The information regarding the same questionnaire is different from different sources. Many factors affect the Initial Public Offering process though it is not possible to study all factors, this study will be limited to the study of only following factors:

Issuing Company

Government body and

Legal provisions are analyzed.

Issue managers

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

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

#### **Chapter – I: Introduction**

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

## **Chapter - II: Review of Literature**

This chapter 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 different statistical tools.

## **Chapter - V: Summary, Conclusion and Recommendations**

This chapter states summary, conclusion, and major findings of the study. And finally depending upon the summary and conclusion, recommendations have been given. The Bibliography and annexes are incorporated at the end of the study.

# **CHAPTER - II**

## **REVIEW OF LITERATURE**

### **Introduction**

Literature review is basically a “Stock Taking” of available literature in one’s field of research. The literature survey, thus, provides us with the knowledge of the status of their field of research. Therefore, this chapter has its own importance in the study (Kothari, 1990: 10).

This chapter includes the review of previous studies, articles, and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and review of some related materials should be dealt with to give the research a clear vision. Knowledge of past study provides foundation to the present study. This chapter is mainly divided into two parts like conceptual framework and review of related studies.

### **2.1 Conceptual Framework**

#### **2.1.1 Historical Background of Capital Market in Nepal**

Flotation of share by Biratnagar Jute Mills Ltd. in 1937 was the first public issue in Nepal. Nepal Bank Ltd. and many other companies also issued share to public during that period. The history of securities market thus goes back to almost seventy years, but the actual development of the market took momentum only after the restoration of multiparty democracy in the country in 1990. However, the introduction of the Company Act in 1964 and the first issuance of Government Bond in 1964 were some steps taken towards developing securities market during 1960s. One of the significant developments relating to capital market was the establishment of Securities Exchange Centre Ltd. in 1976.

The main objectives of establishing Securities Exchange Centre was to promote and facilitate the growth of capita markets in Nepal. For about seventeen years, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issues, market making for government bonds and other financial services.

### **2.1.2 Financial Market**

Financial Markets provide a forum in which suppliers of loans and investments can transact business directly. The loans and investments of institutions 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 keys 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 market are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the resale of securities. Once the securities began to trade among individuals, business, government, or financial institutions, savers and investors, they become part of the secondary market. The primary market is where "new securities are sold" and the secondary market can be viewed as a "used" or "preowned" securities market.

### **2.1.3 Money Market**

Money market activities include primary and secondary market activities in short-term negotiable instruments such as Treasury Bills, Government Bonds, Certificates of Deposit, Banker's Acceptances and Commercial Paper or Promissory Notes. Merchant bankers are usually users and market-makers (dealers), rather than brokers in these types of paper.

In theory, the money market is different from the capital market. In practice, however, in most countries with efficient financial markets (that is, the money market and the capital market combined), the merchant banks are active in both. This is a simple function of the fact that a negotiable money market instrument for all practical purposes is simply a shorter-term capital market instrument. Therefore, the techniques and facilities needed to operate in the money market are essentially the same as those needed to operate in the capital market.

#### **2.1.3.1 Money Market in Nepal**

The money market is founded on the large amounts of funds, which companies, banks and other financial institutions wish to hold in highly liquid form to meet short-term fluctuations in their

finance. Generally, the money market is divisible under two sectors- organized and unorganized. The organized market comprises Nepal Rastra Bank (the central bank of Nepal) and commercial banks. It is called organized because the activities of commercial banks are systematically coordinated by the central bank. The unorganized market is largely made of indigenous bankers and moneylenders. It is unorganized because Nepal Rastra Bank does not systematically coordinate the activities of these indigenous bankers and money lenders.

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

Treasury bill market is a major component of money market in Nepal, started in the year 1961 -62. Since then, it has been an important source of short-term fund for the government except for few years taking from 1968 to 1974. But, because of low yield and absence of active secondary market with brokers, it remained mostly at the hand of the central bank. The holding of Treasury bill by commercial banks, though it was counted for the purpose of statutory liquid ratio, was uneven in the past particularly because of low yield. The interest rate was five percent until mid-November 1988. Since then the rate is determined through auction in the market. The weighted average (annualized) ratio on 91-day Treasury Bill increased from 5.2 percent in 1988/89 to 10.93 percent in 1995/96 and again declined to 2.33 percent in 1998/99. It then slightly increased to 4.96 percent in 2000/01. Treasury bills are being held mostly by commercial banks. The role of other institutions is still insignificant in Treasury bill market.

Commercial banks are major borrowers and lenders in the short-term money market. Although, commercial banks have been dealing with commercial bills since long, the bill market has its position as underdeveloped in Nepal. Only a small amount of commercial banks' lending is against export and domestic bills and larger amount is invested in import bills and letters of credits and purchase of export bills. For examples, commercial banks lending in bill finance including letter of credit were Rs. 544 million in mid-July 1980, which increased to Rs. 1,406 million in 1990 to Rs.

11,802 million in 2001. It accounted 19.62, 11.92 percent and 10.46 percent of the total loan and advances made by commercial banks in the respective years. The development of genuine bill market is beneficial both to borrowers and to lenders in a number of ways. For example, bills are normally self-liquidating and therefore offer greater liquidity to the holders. To the banks and financial institutions, it provides higher return than in treasury bills, and for borrowers, it costs less than under cash-credit system. A well-developed bill market also helps in generating liquidity throughout the financial system. But Nepal has long way to go to realize the full advantage of bill market because it still lacks institutions like 'discount houses' and 'acceptance house' and traders prefer cash credit form of short-term financing.

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

In Nepal, money market is in initial phase. It is underdeveloped in terms of securities dealt with and institutions involved in the market. Many money market instruments and institutions are still absent in Nepal. Treasury bill market and short-term credit by commercial banks form important components of money market. The Commercial bill market is evolving steadily and slowly.

#### **2.1.4 Capital Market**

The capital market is defined as a place where finance is raised by companies for meeting their requirement of funds for new projects, modernization and expansion programmes, long-term working capital needs and for various other purposes. The capital market mobilizes savings of individuals as investment in shares, debentures, Units of mutual funds and other like financial instruments, which are ultimately deployed for productive purposes in various sectors of the economy.

A place where long term lending and borrowing takes place is known as capital market. The capital market is the market for long-term loans and equity capital. Companies and the government can raise funds for long-term investments via the capital market. The capital market includes the stock market, the bond market, and the primary market. Securities trading on organized capital markets are monitored by the government; new issues are approved by authorities of financial supervision and monitored by participating banks. Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit.

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

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

The capital market also comprises two segments – the new issue of market that is commonly known as the primary market and the secondary market where already issued securities are traded. For the purpose of this manual, only primary market would be dealt in detail.

#### **2.1.4.1 Capital Market in Nepal**

The history of capital market in Nepal dates back to the era of Rana Prime Minister Juddha Shamsheer when Gunjaman Singh, the first secretary of Nepalese Embassy in England returned back to Kathmandu and set up the "Industrial Council." Nepal Bank Ltd. issued the shares in the securities market in 1937. The first issued of government bond in 1964 was important

developments relating to capital market. The government first established Securities Exchange Centre (SEC) in 1976. After the establishment of SEC under Company Act, institutional development of securities market in Nepal was started. It started secondary market for the corporate securities in 1984.

Securities Board of Nepal (SEBON) was established on 26 May 1993 after the first amendment in the Securities Exchange Act 1983. On 16 May 1993, after eighteen years of incorporation, the government converted Security Exchange Centre into Nepal Stock Exchange (NEPSE). After the conversion of SEC into NEPSE, 25 brokers and 5 market makers were appointed. It started 'open cry out system' of trading through broker and market maker on 13th January 1994. Presently, NEPSE has 23 brokers and 18 issue managers. There are 163 listed companies.

Although, the growth of stock market is highly relative to the growth of economy, the contribution of corporate sector in the economy is still low due to negligible size of corporate sector. There should be automation for the efficient trading of the Securities in the security market. Nepal Stock Exchange should also go towards automation.

### 2.1.5 Different between Money Market and Capital Market

| <b>Basis or Difference</b> | <b>Money Market</b>   | <b>Capital Market</b>   |
|----------------------------|---|---|
| 1. Time Period             | This is the type of market which is meant for a short term securities. A money market typically involves financial assets that have a life span | This is the type of market which is meant for a long term securities. A capital market typically involves financial assets that have life span more                           |
| 2. Liquidity               | This type of market involves highly liquid.   | This type of market involves less liquid than money market securities and debt.   |
| 3. Types of securities     | Money market deals only with debt securities (short-term debt).   | Capital market deals both with stock and debt securities (long-term debt) stock involves both common stock and preferred stock and long term debt involves debenture or bond. |



|                 |   |  |
|-----------------|---|--|
| 4. Risk         | Money market deals with low risk security.                            | Capital market deals with high risk security.                          |
| 5. Instruments: | Money market instruments includes T-bills, commercial papers, bankers | Capital market instruments include debenture (bond), common stock, and |

### 2.1.6 Security Market

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

Securities are traded in a market called securities markets. Although, securities markets are concerned in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institutions such as government and corporate bodies and the participants of the securities markets. Securities markets major function is to provide line between saving and investment there by facilitating the creation of new wealth.

Securities markets covers both primary and secondary. The difference between the two markets is, the primary market consists of the companies making the issue of securities and the members of the public subscribing to them. Whereas, secondary market involves the purchase and sale of securities already issued to the general public and is traded in the stock exchange. The primary

market also comprises the offer of securities to the existing shareholders of the company on right basis.

This study is only concerned with initial public offerings so, it deals with the process and activities incurred in rising of funds from the primary market. The operation of the secondary market, though is an important operation scope of the merchant banking, is not covered in this manual. Primary market and the secondary market are present in both the capital market and the money market.

### **2.1.7 Primary Market**

The primary market is that part of the capital market that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of new stock or bond. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock, the sale is an initial public offering (IPO), though it can be found in the prospectus.

Features of Primary market:

- The new securities are traded in primary market.
- Primary market makes the financial capital available to make new investments in building equipment and stock of necessary goods.
- The securities are sold for the first time.
- The securities are issued by the company directly to investors.
- Used by the companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- Facilitates capital formation in the economy.
- Buying security in primary market is less risky

### **2.1.8 Public Offerings**

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 (debt or

equity) on a permanent basis. It not only permits them to broaden their sources of finance beyond the banking system but also the banking system is usually a short-term or medium-term floating rate lender. The securities market is often the only means of obtaining large sums of fixed rate, long-term funds.

### **2.1.9 Primary Market Instrument**

After the establishment of Securities Board of Nepal in 1993, the following instruments have been used by the Nepalese corporate bodies to raise capital from primary market.

#### **2.1.9.1 Common Equity / Stock**

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 meeting 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.

#### **2.1.9.2 Preference Shares / Preferred Stocks**

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

### **2.1.9.3 Bonds / Debentures**

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 fulfils 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 principal 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

### **2.1.9.4 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

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.

### **2.1.10 Secondary Market**

In the secondary market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and seller of the securities. The company must list the securities in the security market for the transaction purpose. Secondary market provides no capital to the original issuer.

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owners wish. An active secondary market is therefore a necessary condition for an effective primary market, as no investor wants to feel 'locked in' to an investment.

## **2.2 Investment consideration to the potential investors in the Primary Market**

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

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

The investors should take information regarding company's promoters, size, growth, environment, board of directors, past statements and as well as budgeted statements, which can be obtained from memorandum, prospectus, articles of the concerned company.

Investors should be aware about the following terms:

### **Red Herring**

This is an initial prospectus containing all the information about the company except for the offer price and the date of issue because these two are unknown at the time of publishing this

document. In Nepal, Red Herrings are usually printed in the daily news papers along with the notice of the Initial Public Offering. This is one way that companies generate the hype about the issue. This is also the first source of information for the investors.

### **Lock-Up Period**

There is an agreement between the underwriter and the insiders of the company (usually employees and board members) prohibiting both parties from selling stocks for a specific period of time. Such time is called the lock-up period. It usually ranges from 24 months to a number of years. For example, in the IPO of Nepal Telecom Company, the employees were offered shares at a discounted price with a lock-up period of three years from the listing of the shares on NEPSE.

### **Flipping**

Flipping is reselling hot IPOs during the first few days of trading in exchange for a quick profit.

### **Quiet Period**

Quiet period is the time between the submission of all registry documents to the regulatory board and the approval. During this period, the company including its board members, employees and analysts, are legally bound not to discuss or promote the IPO. Similarly, another round of quiet period is enforced after the security has been listed in the company insiders and the underwriters involved the issuance process are restricted from issuing any earnings forecast or publishing any report on the company

## **2.3 Investment consideration to the potential investors in the Secondary Market**

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

- Keep information of the companies return to the shareholders in the form of cash dividends, stock dividends, bonus shares etc. they should also be informed about Earning per share (EPS), book value of share (BVS), price earning ratio (P/E Ratio), future plan, growth expectancy of the company through the annual, quarterly and half-yearly

performance reports, profit and loss account (P/L a/c), balance sheet (B/S) and annual reports.

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

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

## **2.4 Initial Public Offering (IPO) Manual**

Initial Public Offerings (IPO) manual is the detailed 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 involved during this period. They are:

### **2.4.1 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.

The provisions and conditions of Securities Registration and Issue Act, 2051 has set the guidelines that before going into public offerings, issuing company should take into consideration that

**a) If the issuing company is industrial institutions**

- The institution has bought the land or made other provisions in which necessary infrastructure like factory; office buildings, godowns etc. are already build in or made necessary arrangements for it.
- Necessary technology has been selected for which spare parts of



machineries needed have been bought. If not, LC has been opened to buy the necessary technologies.

- Estimated budget has been proposed for the project to be implemented and for which if loans are required, such agreements are already made.
- In the absence of long-term loan agreement, issue securities are underwritten.
- Necessary approvals according to the existing Acts have been taken.

**b) If the issuing company is financial institutions**

- According to the nature of the business, required infrastructures are installed.
- Approval has been taken under the Company Act 2063.
- For commencing other activities, authority and approval from governing bodies based on existing Acts has been taken.

## **2.4.2 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.

For the working of merchant banking function in Nepal, Nepal Rastra Bank (NRB) has set forth the working guidelines. Guidelines have identified working of merchant banking into two sets of functions. The first set is the non fund-based functions and the second set is fund-based functions.

Fund-based activities identified for the merchant banking are:

- Bridging finance
- Underwriting
- Project finance
- Venture capital
- Acquisition and merger

Non fund-based activities identified for the merchant Banking are: Share issue management Mutual fund Portfolio management corporate counselling Project counselling Debenture trusteeship arranging international finance Investment advisor Advising corporate mergers

NRB has set the directives as for non fund-based activities of merchant banking, for underwriting and for bridging finance it is not necessary to take separate approval from NRB. But, for other fund-based activities of merchant banking, it is necessary to take separate approval from NRB for different activities to be undertaken.

In Nepal, there are 7 merchant banks are already established. They are providing issue manager, lead underwriter, register, transfer of shares etc. services to other institutions.

### 2.4.3 Securities Board

Securities board has been formed under the Securities Exchange Act, 2040 Clause 3. This legislation has required for the creation of an independent Statutory Board to be an apex authority for securities market, thus resulting into the formation of Securities Board.

The need of legislative body is for maintaining healthy and orderly development of the securities markets and to ensure adequate investor protection. Establishment of Securities Exchange Board (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 endeavour 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.

#### **2.4.4 Offices of the Registrar of Companies (ROC)**

Registrar of Companies (ROC) 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 regulations set forth by the existing Company Act 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 sends it back to the company for necessary changes. Upon satisfactory changes ROC grants approval to issuing company to issue the prospectus. Apart from approving the prospectus to be published by the issuing company before going into public, ROC does not play other major role.

#### **2.4.5 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.

#### **2.4.6 Financial Institutions**

They are financial intermediaries like commercial banks, finance companies (merchant bankers), and development banks and cooperatives institutions. These institutions are established under the Company Act and Nepal Rastra Bank Directives. These financial institutions perform the role of intermediaries in the securities issue as per the authority received from the Securities Exchange Board. Financial Institutions are involved in securities issue process as:

- Issue managers
- Underwriters

## **2.5 Pricing Differences**

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

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

## **2.6 IPO by Private Company to the Public**

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

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

## **2.7 Risky Investment**

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

## **Pricing**

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

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

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

There are two ways by which the price of a stock is calculated.

#### **Fixed Pricing Method:**

The price is set by the underwriter in consultation with the issuing company. This is also known as fixed pricing method where the pricing of the issue is made by taking into consideration all quantitative (financial data) and qualitative (management) factors. This method has been criticized for not taking into consideration the demand side and usually not reflecting the true value in the market. Most of the issues priced through fixed price method are underpriced .

#### **Book Building Process:**

In this process, the lead underwriter is nominated as the 'book runner' by the issuer who also specifies the issue size and the price band for the bid. The book runner receives bids for the securities within the stipulated price band, then together with the issuer, evaluates the bids on the basis of the demand at, various price levels and decides the final price. The price so determined is called the cut-off price and it is the price at which the demand for the shares equals the supply.

#### **Why Go Public?**

Going public raises cash and usually a lot of it. Being publicly traded also opens many financial doors. Because of the increased scrutiny; public companies can usually get better rates when they issue debt. S long as there is market demand, a public company can always issue more stock. Thus mergers and acquisitions are easier to do because stock can be issued as part of the deal.

Trading in the open markets means liquidity. This makes possible to implement things like employee stock ownership plans, which helps to attract top talent.

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

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

### **What are some good methods for analyzing IPO's?**

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

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

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

1. Why has the company elected to go public?



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

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

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

## **2.8 The Underwriting Process**

Underwriting is an agreement between the issuing company and financial institution like bank, merchant banks, broker or other person, providing for their taking up the shares or debentures to the extent specified in the agreement. Getting a piece of hot IPO is very difficult, if not

impossible. To understand why, we need to know how an IPO is done, a process known as underwriting.

When a company wants to go public, the first thing it does is hire an Investment Bank. A company could theoretically sell its shares on its own, but realistically, an investing bank is required. Underwriting is the process of raising money by either debt or equity. We can think of underwriters as middlemen between companies and the investing public. The biggest underwriters in our Nepal are Nepal Merchant Banking & Finance Ltd. Co.(NMBL), Citizen Investment Trust (CIT), NIDC Capital Market Ltd. (NCML), etc.

The company and the investment bank will first meet to negotiate the deal. Items usually discussed include the amount of money a company will raise, the type of securities to be issued and all the details in the underwriting agreement. The deal can be structured in a variety of ways. For example, in a firm commitment, the underwriter guarantees that a certain amount will be raised by buying the entire offer and then reselling to the public. In a best efforts agreement, however, the underwriter sells securities for the company but does not guarantee the amount raised. Also, investment bank does not bear all the risk of offering. Instead, they form a syndicate of underwriters. One underwriter leads the syndicate and the others sell a part of the issue. Only a limited number of broker-dealers are invited into the syndicates as underwriters and some of them do not have individual investors as clients. Moreover, syndicate members themselves do not receive equal allocation of securities for sale to their clients.

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

Once all sides agree to a deal, the investment bank puts together a registration statement to be filed with the SEC. The document contains information about the offering as well as company info such as financial statements, management background, any legal problems, where the money is to be used and insider holdings. The SEC then requires a cooling off period, in which

they investigate and make sure all material information has been disclosed. Once the SEC approves the offering, a date (the effective date) is set when the stock will be offered to the public.

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

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

## 2.9 Review of previous research work

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

**Shrestha (1996)** has conducted a study on the topic, “*Public response to primary issue of shares in Nepal*” in 1996.

The main Objectives of his study were:

- To identify the scope of primary market in Nepal.
- To analyze the public response to primary issue of shares in Nepal.

His major findings:

- This study reveals the fact that the scope of primary market in recent days is blooming. Even the general investors heavily invest their saving in the new issue of shares causing over subscription to a great deal.
- The positive response of the investors to the companies is a direct manifestation of the growing public confidence in the primary market.
- This study asserts that the growth of the primary market is encouraging since many public limited companies including joint venture banks have been successful in tapping capital through the flotation of shares to the general public.

His Recommendation:

- The general public simply taps everything that comes on their way, regardless of the promoter's background and company feasibility. Therefore the investor should be aware about the stock market for effectiveness of the primary market.

**Pandey (2001)** has presented a dissertation entitled “*Public Response to Primary Issue of Shares in Nepal*” had been conducted. But his objectives of the study are different than Shrestha's study.

The main objectives of his study were :

- To identify the problems of primary issue and to assess the growth of the primary issue.
- To analyze the pattern of public response to shares.

His major findings;

- Public response in primary market is high due to lack of opportunities for investment in other fields.
- No proper investment analysis is been made.
- The dynamism of the stock market has been greatly reduced by the domination of the long term shareholders, who prefer holding the shares with the hope of increasing their wealth.

His recommendations:

- People need to understand how market situation works, analyze the fluctuation of price and make decisions accordingly for maximum return.
- Potential investors need to consider before investing in the share market.

- Small number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market. The investors have very few rather no alternative to holding shares.

**Paudel (2002)** has conducted a study related to "*Investing in shares of Commercial Banks in Nepal*". His objectives in this study are:

- To analyze the primary market of commercial banks.
- To assess the risk and return elements of investment in shares of commercial banks in Nepal.

His main findings of the study were :

- The shares of commercial banks in Nepal are heavily traded in the stock market and, therefore, these shares play a key role in the determination stock exchange indicators.
- The average mean return on market portfolio, as measured by percent changes in the NEPSE index, is 5.51 percent over the sample period.
- All the shares produced higher rates of return than the return on market portfolio. However, the risk-return characteristics do not seem to be the same for all the shares reviewed.
- The shares with larger standard deviations seem to be able to produce higher rates of return. The portion of unsystematic risk is very high with the shares having negative beta coefficient. The risk per units of return, as measured by the coefficient of variation, is less than that of the market as a whole for all the individual shares.
- Most of the shares fall under the category of defensive stocks, (having beta coefficients less than 1), except the shares of Bank of Kathmandu Limited. Return on the shares of Nepal Arab Bank Limited is negatively correlated with the return on market portfolio and, therefore, it has negative beta coefficient.

His main recommendations:

- From the analysis, it appears that none of the shares are correctly priced. Theoretically, the market price of an over-priced (under-priced) share will fall (rise) in order to increase the expected return such that the expected return equals the required return.

- Shares of Nepal Arab Bank Limited, Nepal Indosuez Bank Limited and Himalayan Bank Limited, which are overpriced relative to equilibrium thus market forces, will decline. The remaining share appears to be under-priced indicating a possible positive long term price trend.

**Sharma (2002)** has conducted the study on “Problems and Prospects of Primary and Secondary Market in Nepal”. The main objectives of the study were:

- To analyze the problems and prospects of Nepalese stock market.
- To analyze the status of primary and secondary market.

His major findings of the study:

- The existing problems could be resolved only when general people understand how market works.
- Investors need to understand that keeping the shares may not be the best alternative. They need more information that what factors to be considered before investing the money in shares.

His main recommendations:

- People need to analyze the financial position of the firm before subscribing and not to go with rumors and wrong information prevailing in the market.
- Investor need to look for the best alternative they can get within the given time frame.
- They need more information that what factors to be considered before investing the money in shares.
- 

**Paudel (2006)** has made the study on the topic of “*Public response to initial public offering in Nepal*”.

His main objectives were:

- To identify the dealing process of IPO.
- To analyze the pace of IPO.
- To analyze the public response to the IPO.

His major Findings of the study:

- 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.
- Nepalese investors are more interested in financial sector than non-financial sector.
- The pace of initial public offering in Nepal seems to be irregular.
- Organization's process of public offering is quite long.

His main recommendations:

- Public response in stock market is high due to lack of opportunities for investment in other sector. There should more profitable option for investment to minimize the risk of fluctuating stock market.
- Service provided to the investors seems to be satisfactory but there are many other things to be added to operate stock market smoothly.
- Issue manager and the issuing company should provide sufficient information regarding the primary market which guides the investor to analyze the company's performance before investment.

## 2.10 Review of Books and Journals

These days internet has become the most easily accessible medium to gain information in any subject matter. In the study period, different articles and journals have been consulted.

**Paul, (1960)** in his article "The Review of International Capital Markets" published in the journal "The American Economic Review" has pleaded that the development of world capital market appears to be reaching the state where they can make significantly greater contribution to world economic growth and trade. More importantly, the groundwork has been laid for the healthy development and future growth of international capital markets. Barring the intervention of war or other major disturbances, world capital market give promise of being able to play and increasingly important, through no predominant role in the movement of capital internationally.

**Simha, (1960)** In connection with the necessary of capital market in his book "The Capital Market in India" has observed that capital is an extremely fascinating subject and efficient capital market is an indispensable prerequisite to economic development. In fact, even as regards the resources for the public sector, the capital market has a rather important role to play.

**Shrestha, (2002)** has analyzed why the share market is inactive and what are the main causes for inactiveness and what measures should be done etc are carefully defined. Similarly, how the securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted here to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price.

**Dahal, (2007)** in his article “The Performance of Nepalese IPOs” published in the SEBON journal, the paper assesses the performance of Nepalese IPOs and relates them to potential factors. The study finds that the Nepalese IPOs are heavily oversubscribed and provide the investors with the market adjusted excess rate of return leading to the conclusion that Nepalese IPOs are underpriced too.

The leading business journals like "The Boss" magazine, "The New Business Age" and "Business and Economics" have been used during the study. The different writer's different views, the primary market scenario i.e., current scenario has been discussed among the group members during the research. The websites have been used instead of journal of different organizations. Like for the knowledge of government securities, NRB website, for other information SEBON website and different world leading management websites have been used.

## **2.11 Research Gap**

Nepali investors have developed an increasing interest in the primary market, especially the primary market, has been fast growing. The majority of Initial Public Offerings (IPOs) are highly oversubscribed. However, though investing in IPOs often guarantees return, there also are risks in such investments. The investor should be aware of these risks and returns.

However there are many researches related to public response to IPO in Nepal, but no one has given focus on pricing of IPO with premium or face value, objective of investors as long term investment or quick way to make money, and the role of whim and rumor to investing decision of investors while investing which affects the share market significantly. Furthermore previous studies had not tested the hypothesis on investors' response.

Thus with this several of research gap found in previous studies, the research has been conducted to analyze the investors' response, performance of issue managers in the process of IPO,



preference over investment sector, investors' preference on the performance of the company or market information, and response for the margin lending restriction.

For the primary data analysis this research has tried to involve more and more people from various sectors like bank, university, business. As in Nepal maximum investors are risk averters, this thesis also analyze whether people prefer personal fund or loan for investment. Also this research has tried to analyze the influencing factors for investment in IPO and the role of whim and rumor to investing decision of investors while investing on IPO. Today's practice is that most investors apply with many names so that they could get more and more shares in IPO, so this research also takes individual investors responses whether they would prefer pro-rata basis for distribution or lucky-draw. Nepalese investors have been influence with whim and rumors as well as they are not well informed and aware of features different securities.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

This chapter deals with the research methodology by which the collected data are analyzed to get the results. In other words it describes the methods and processes applied in the entire aspect of the study. This chapter provides the methodology followed to achieve the objectives stated in this research work. Detail research methods are described in the following headings. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and process to be followed during the research work (Kothari, 1990:10).

Certain methods and processes are applied in the entire study of this research. The study follows sequential steps. A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used.

This chapter has been divided into five sections. Section 1 presents the research design of the study while the section 2 deals with the population and sample section 3 consists of the selection of source of data whereas section 4 explains the methods of analysis as data collection procedures for the study. Similarly, data analysis tool is defined in section 5 respectively.

#### **3.1 Research Design**

“Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance”(Kerlinger 1986, 275). “The research design refers to the entire process of planning and carrying out a research study” (Wolff and pant: 2000, 53). Generally, research design means definite procedure and technique which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate the investors’ response and preference in Nepal.

This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspect and logical aspect. This research study attempts to analyze the public response to IPO, performance of investment bankers (issue managers) in IPO, source of relating information on the public response to IPO. Thus descriptive as well as analytical research design has been used. This study attempts to analyze the relation between different variables relating to IPO and public responses. It also tries to analyze what factors actually motivate the investors to invest, what is their goal behind investment, their response sector wise.

### 3.2 Population and the Sample study

The large group about which the generalization is made is called the population under study. Because of the large group size, it is fairly difficult to collect detail information from each member of population. Rather than collecting detail information from each number, the small portion is chosen as representation of the population is called the sample. Population for this research is the total number of listed companies up to fiscal year 2008/2009. There are 159 listed companies as per below table:-

**Table 3.1**  
**Population and Sample of the Study**

| Sector                      | Population of the study | Sample of the study | Percentage (%) |
|-----------------------------|-------------------------|---------------------|----------------|
| <b>Financial Sector</b>     |                         |                     |                |
| Commercial Bank             | 21                      | 8                   | 38.095%        |
| Development bank            | 29                      | 10                  | 34.48%         |
| Finance companies           | 61                      | 12                  | 19.67%         |
| Insurance companies         | 17                      | 5                   | 29.41%         |
| <b>Total</b>                | 128                     | 35                  |                |
| <b>Non-financial Sector</b> |                         |                     |                |
| Mfg. & Pro. Co.             | 18                      | 4                   | 22.22%         |
| Trading co.                 | 4                       | 2                   | 50.00%         |
| Hotel                       | 4                       | 2                   | 50.00%         |
| Others                      | 5                       | 2                   | 40.00%         |
| <b>Total</b>                | 31                      | 10                  |                |

Table 3.1 Shows that from among the 21 listed commercial bank, only 8 (i.e. 38.095%) are taken as sample. In the case of development bank and finance companies 10 (i.e. 34.48%) and 12 (i.e. 19.67%) samples are taken from population of 29 and 61 respectively. From 17 Insurance

companies 5 (i.e.29.41%) are taken as sample. From non-financial sector altogether 10 companies are taken as sample from 31 companies (i.e. 32.26%).

For the primary data collection 150 respondents from bank, business, university, and brokerage firm have been taken as sample. Among the 150 respondents for the primary data collection, 20%(30) are students, 40%(60) are businessman, 16.67%(25) are bankers, 3.33%(5) are brokers and rest 20%(30) are others.

### **3.3 Nature and sources of Data**

Both the primary data and secondary data have been used in order to complete the objective of the study

#### **3.3.1 Primary Data**

Primary data gives real shape to the work. Discussion and interviews with existing investors, staff members of NEPSE and SEBON, brokers and other concerned parties have been conducted to collect the primary data. As per the requirement of the research a questionnaire was designed for the primary data collection. And then that was distributed to 150 respondents (students, businessman, bankers, brokers, and others) for their responses.

#### **3.3.2 Secondary Data**

To accomplish the above mentioned objectives, this research is based upon the secondary data for the historical performance assessment and the primary data for the qualitative assessment of information. As input for the study, the secondary data that re collected through various published and unpublished documentary type sources. The sources are relied secondary data are as:

- Annual Report – NEPSE, SEBON
- Nepal Merchant Bank & Finance company Ltd.
- NIDC Capital Market
- Citizen Investment Trust
- Quarterly Economic Bulletins, NRB
- Websites

- Previous Research studies; Dissertation and Articles on the subject.

### **3.4 Data presentation and Analysis Method**

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

### **3.5 Pretesting**

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

### **3.6 Necessary Tools and Techniques**

Different relevant statistical tools are used to find out the best appropriate result as per the designated objectives of the study. Several hypotheses are also formulated during the course of the study and analysis. The study has used the different statistical tools, financial tools, different diagram table, chart as well as descriptive methods as per the requirements and their suitability. The techniques that are applied in this study are;

#### **3.6.1 Non Parametric Statistical Tools**

##### **Chi-square test ( $\chi^2$ )**

Chi-square is the one of the simplest and most widely used non-parametric test in statistical work. It has been used to check whether there is any association between two independent variables as well as to check the uniform distinction of the investor's response toward various options. Chi-square statistics help to test the association as well as uniformity.

$$\chi^2 = \frac{(O-E)^2}{E}$$

Where;

$\chi^2$  = chi- square statistics

O = observed frequencies

E = expected frequencies

### 3.6.2 Financial and other statistical tools

Suitable statistical tools are used to implicit the comparative results as required.

#### 3.6.2.1 Bar Diagrams and line chart

Diagrams and line chart 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.

#### 3.6.2.2 Pie – diagram

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In 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.

#### 3.6.2.3 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.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

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

To meet the objectives of study about the responses of investors, the study is made with questionnaire survey. The questions are responded form 30 students, 60 businessmen, 25bankers, 5 brokers and rest 30 are others included in this study as respondents. The study is based on the investors who are willing to invest in IPO and are already involved in financial market. The theme of the study is-what types of company do investors prefer most? The banking and financial sectors take over the very high place but other sectors are not -why? What react can be over come from the investors, if the companies issued the IPO?

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

In this course of analysis, the collected data have been presented in the tables, figures and diagrams and then analyzed by using financial and statistical tools. The results of the computation have also been summarized in appropriated tables. The samples of computation of each model have been included in annexes. This chapter includes presentation of data and analysis of that data to reach at a conclusion. Collected data have been analyzed in percentage, simple average.

## 4.1 Secondary Data Analysis

### 4.1.1 Growth of Initial Public Offering

#### 4.1.1.1 Amount of Issue Approved

Securities Exchange Act, 1983 has made mandatory that the issuing company should register the securities in SEBON and get approval before going to public. From the fiscal year 1993/94 to 2008/09 SEBON has approved 324 issues of securities amounting to Rs. 39389.90 million. The details are as follows:

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

(Rs. in million)

| Year    | Amount of Issue Approved | % of Issue Approved |
|---------|--------------------------|---------------------|
| 1993/94 | 244.40                   | 0.62                |
| 1994/95 | 173.96                   | 0.44                |
| 1995/96 | 293.74                   | 0.75                |
| 1996/97 | 332.20                   | 0.84                |
| 1997/98 | 462.36                   | 1.17                |
| 1998/99 | 258.00                   | 0.66                |
| 1999/00 | 326.86                   | 0.84                |
| 2000/01 | 410.49                   | 1.04                |
| 2001/02 | 1441.33                  | 3.66                |
| 2002/03 | 556.54                   | 1.42                |
| 2003/04 | 1027.50                  | 2.60                |
| 2004/05 | 1626.82                  | 4.13                |
| 2005/06 | 2443.28                  | 6.20                |
| 2006/07 | 2295.5                   | 5.83                |
| 2007/08 | 10668.20                 | 27.08               |
| 2008/09 | 16828.51                 | 42.72               |
| Total   | 39389.90                 | 100.00              |

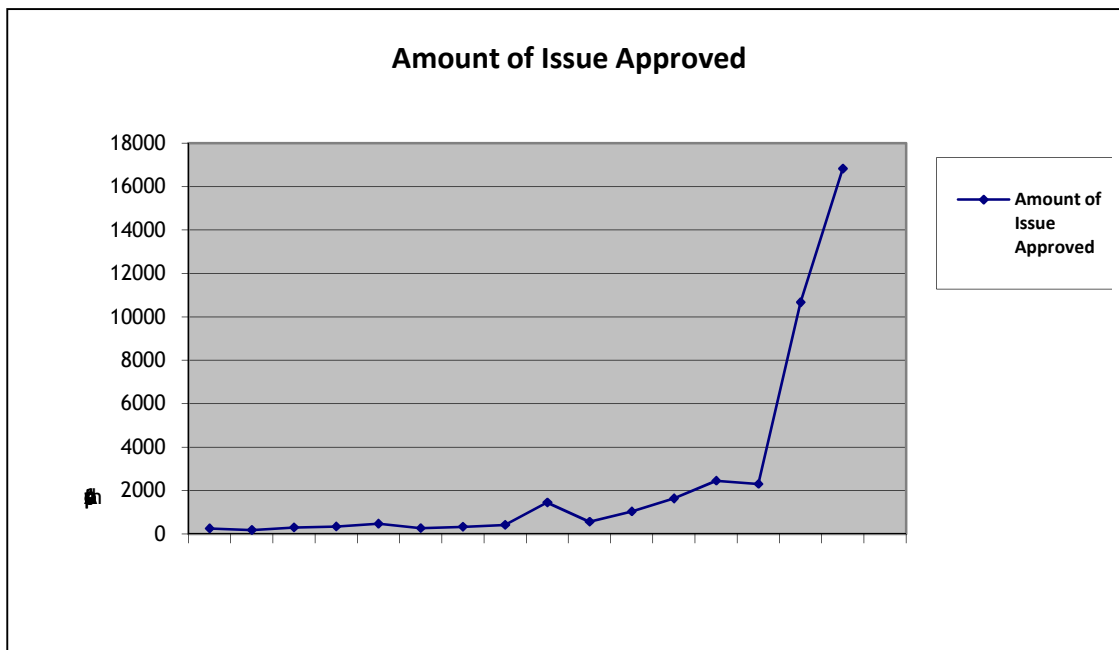
Source: SEBON Annual Report (2008/2009)

Table 4.1 shows the variation of issue amount approved during 1993/94 to 2008/09 period. The highest amount approved is Rs. 16828.51 million (42.72%) in the fiscal year 2008/09 and the



lowest amount approved is Rs.173.96 million (0.44%) in the fiscal year 1994/95. During the period issue amount approved reaches at a high point in 2001/02 then declines and again started rising then after.

**Figure 4.1**  
**Amount of Issue Approved**



Source: SEBON Annual Report (2008/2009)

The given graph line illustrates the amount of issue approval of IPO from 1993/94 to 2008/09. The pick point is in the year 2005/06 which shows that the highest amount of issued approved that is 20.54% of total issue approved. And the lowest point is in the year 1994/95 which is 1.46% only. During the period Nepalese capital market was not so popular among investors. Only few investors of Kathmandu valley were trading. But, after 2002/03 more and more people entered in market. Specially, people who have been hard hit by Maoist people's war found capital market as a good shelter for their money.

#### 4.1.1.2 Number of Issue Approved

The number of issue approved is the total number of issue approved by the Security Board of Nepal. Before issuing securities, the issuing company must make approval from Security Board of Nepal (SEBON). For issue approval and registration, the company must submit required information within prescribed format otherwise SEBON may reject it. After registration and

issue approval, the company must open issue within three month of issue approval. In case if the issue couldn't be made, then after another date should be fixed consulting with SEBO. The advertisement for application should be published in national daily news paper, the advertisement should consist all actual and real information. The advertisement should be able to identify application collection centre and its duration.

**Table 4.2**  
**Number of Issue Approved**

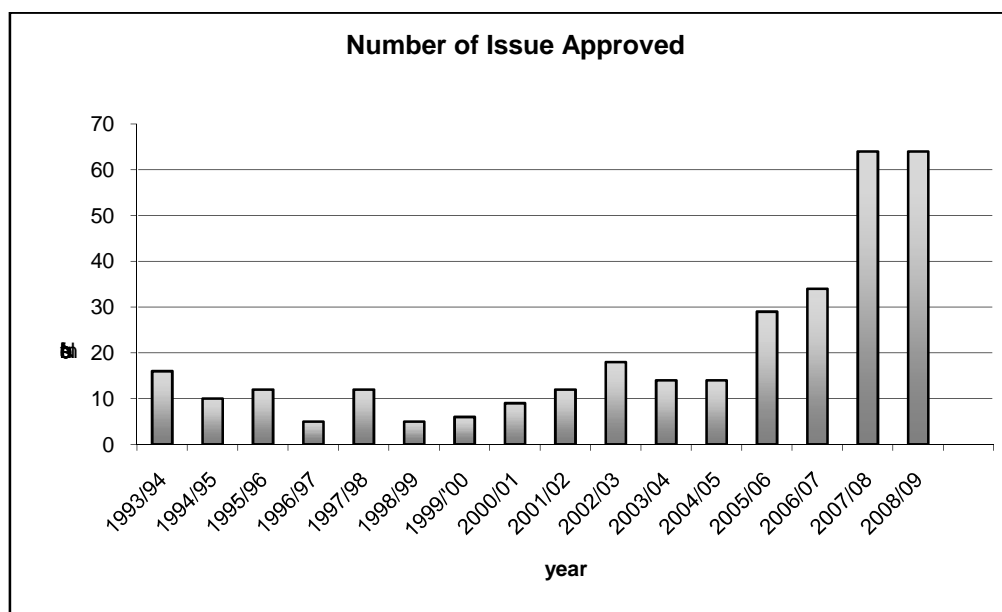
| Year     | Number of Issue Approved | % of Issue Approved |
|----------|--------------------------|---------------------|
| 1993/94  | 16                       | 4.94                |
| 1994/95  | 10                       | 3.09                |
| 1995/96  | 12                       | 3.7                 |
| 1996/97  | 5                        | 1.54                |
| 1997/98  | 12                       | 3.7                 |
| 1998/99  | 5                        | 1.54                |
| 1999/'00 | 6                        | 1.85                |
| 2000/01  | 9                        | 2.78                |
| 2001/02  | 12                       | 3.7                 |
| 2002/03  | 18                       | 5.56                |
| 2003/04  | 14                       | 4.32                |
| 2004/05  | 14                       | 4.32                |
| 2005/06  | 29                       | 8.95                |
| 2006/07  | 34                       | 10.5                |
| 2007/08  | 64                       | 19.75               |
| 2008/09  | 64                       | 19.75               |
| Total    | <b>324</b>               | 100.00              |

*Source: SEBON Annual Report (2008/2009)*

Table 4.2 shows that the number of issue approved from 1993/94 to 2008/09. SEBON has approved 324 issues in which highest number of issue approved has in the year 2007/08 and in the year 2008/09 and the lowest issue approved was in the year 1996/97 and 1998/99. Simultaneously 16 issues has approved in 1993/94, 10 issues in 1994/95, 12

issues in 1995/96 and in 1997/98, 6 issues in 1999/00, 9 issues in 2000/01, 12 issues in 2001/02, 18 issues in 2002/03, 14 issues in 2003/04 and in 2004/05, 29 issues in 2005/06, 64 issues in 2007/08 and in 2008/09.

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



*Source: SEBON Annual Report (2008/2009)*

The above diagram illustrates the number of issue approved from 1993/94 to 2008/09.

In the year 2007/08 and 2008/09 highest number of issue approved is 64 and the lowest number of issue approved is only 5 in the year 1996/97 and 1998/99.

#### **4.1.2 Over and Under Subscription of Securities**

The demand for securities may be greater or lesser than the issuing amount. When the demand is greater that is over subscription and when lesser that is under subscription. At the time of issue the demand for securities may be greater or lesser than the issuing amount. When the demand of securities is higher than issued securities, the situation is called the case of oversubscription but if the demand of securities is lower than issued securities that situation is called under subscription of securities. Below table 4.3 shows the oversubscription & under subscription of different companies from year 1993/94 to 2008/09, while issuing their Ordinary share to general public.

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

| Year    | No. of Issue | Over Subscribed |       | Under Subscribed |       | Constant |       |
|---------|--------------|-----------------|-------|------------------|-------|----------|-------|
|         |              | No.             | %     | No.              | %     | No.      | %     |
| 1993/94 | 16           | 16              | 100   | 0                | 0     | 0        | 0     |
| 1994/95 | 10           | 7               | 70    | 1                | 10    | 2        | 20    |
| 1995/96 | 12           | 6               | 50    | 6                | 50    | 0        | 0     |
| 1996/97 | 5            | 2               | 40    | 0                | 0     | 3        | 60    |
| 1997/98 | 12           | 5               | 41.67 | 5                | 41.67 | 2        | 16.67 |
| 1998/99 | 5            | 3               | 60    | 1                | 20    | 1        | 20    |
| 1999/00 | 6            | 4               | 66.67 | 1                | 16.67 | 1        | 16.67 |
| 2000/01 | 9            | 8               | 88.89 | 1                | 11.11 | 0        | 0     |
| 2001/02 | 12           | 5               | 41.67 | 4                | 33.33 | 3        | 25    |
| 2002/03 | 18           | 14              | 77.78 | 3                | 16.67 | 1        | 5.55  |
| 2003/04 | 14           | 12              | 85.71 | 2                | 14.29 | 0        | 0     |
| 2004/05 | 14           | 6               | 42.86 | 7                | 50    | 1        | 7.14  |
| 2005/06 | 29           | 17              | 58.62 | 10               | 34.48 | 2        | 6.90  |
| 2006/07 | 34           | 16              | 47.05 | 14               | 41.17 | 4        | 8.82  |
| 2007/08 | 64           | 19              | 29.68 | 32               | 50.00 | 13       | 20.32 |
| 2008/09 | 64           | 12              | 18.75 | 0                | 0     | 52       | 81.25 |
| Total   | 324          | 152             |       | 87               |       | 85       |       |

*Source: SEBON Annual Report (2008/2009)*

The above table 4.3 gives the information about over and under subscription of securities from 1993/94 to 2008/09 where most of the issues are over subscribed i.e. 152, and only 87 issues are under subscribed and 85 issues are constant. In the year 1993/94 all issues are over subscribed.

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

**Table 4.4**  
**Over And Under Subscription of Ordinary Shares**

| Year    | No. of Issue | Over Subscribed |        | Under Subscribed |       | Constant |       |
|---------|--------------|-----------------|--------|------------------|-------|----------|-------|
|         |              | No.             | %      | No.              | %     | No.      | %     |
| 1993/94 | 14           | 14              | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 1994/95 | 10           | 7               | 70.00  | 1                | 10.00 | 2        | 20.00 |
| 1995/96 | 10           | 6               | 60.00  | 4                | 40.00 | 0        | 0.00  |
| 1996/97 | 2            | 2               | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 1997/98 | 8            | 5               | 62.50  | 2                | 25.00 | 1        | 12.50 |
| 1998/99 | 3            | 2               | 66.66  | 1                | 33.33 | 0        | 0.00  |
| 1999/00 | 3            | 3               | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 2000/01 | 7            | 7               | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 2001/02 | 5            | 4               | 80.00  | 1                | 20.00 | 0        | 0.00  |
| 2002/03 | 14           | 14              | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 2003/04 | 10           | 10              | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 2004/05 | 7            | 6               | 85.72  | 1                | 14.28 | 0        | 0.00  |
| 2005/06 | 14           | 14              | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 2006/07 | 15           | 15              | 100.00 | 0                | 0.00  | 0        | 0.00  |
| 2007/08 | 16           | 14              | 87.50  | 0                | 0.00  | 2        | 12.50 |
| 2008/09 | 12           | 12              | 100.00 | 0                | 0.00  | 0        | 0.00  |
| Total   | 150          | 135             | 90.00  | 10               | 6.66  | 5        | 3.33  |

*Source: SEBON Annual Report (2008/2009)*

Table 4.4 gives the information about over and under subscription of ordinary shares from 1993/94 to 2008/09, where most of the issues are over subscribed, only 10 times under subscribed, and only 5 times constant subscribed. In the year 1993/94, 1996/97, 1999/00, 2000/01, 2002/03, 2003/04, 2005/06, 2006/07, 2008/09, it is over subscribed all the times (i.e. 100%)

#### 4.1.4 Performance of the Issue Managers

**Table 4.5**

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

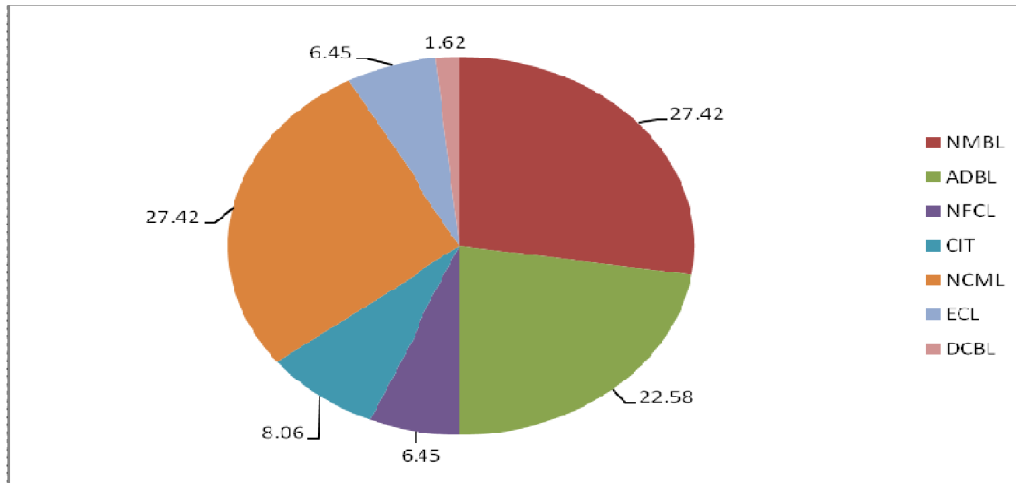
| S.N          | Issue Managers | Issue Management (2008/09) |            |  |            |
|--------------|----------------|----------------------------|------------|--|------------|
|              |                | No. of Issue Managed       | %          | Amount of Issue Managed (Rs. In million) | %          |
| 1            | NMBBL          | 17                         | 27.42      | 4012.59                                  | 25.68      |
| 2            | ADBL           | 14                         | 22.58      | 3593.08                                  | 23.01      |
| 3            | NFCL           | 4                          | 6.45       | 154.22                                   | 0.98       |
| 4            | CIT            | 5                          | 8.06       | 3204.53*                                 | 20.52      |
| 5            | NCML           | 17                         | 27.42      | 3761.64*                                 | 24.08      |
| 6            | ECL            | 4                          | 6.45       | 564.86                                   | 3.62       |
| 7            | DCBL           | 1                          | 1.62       | 330.00                                   | 2.11       |
| <b>TOTAL</b> |                | <b>62</b>                  | <b>100</b> | <b>15620.92</b>                          | <b>100</b> |

*Annual Report of SEBON (2008/09)*

\*Including two issue amounting to Rs 745.85 Million jointly managed by Citizen Investment Trust and NIDC Capital Market Ltd.

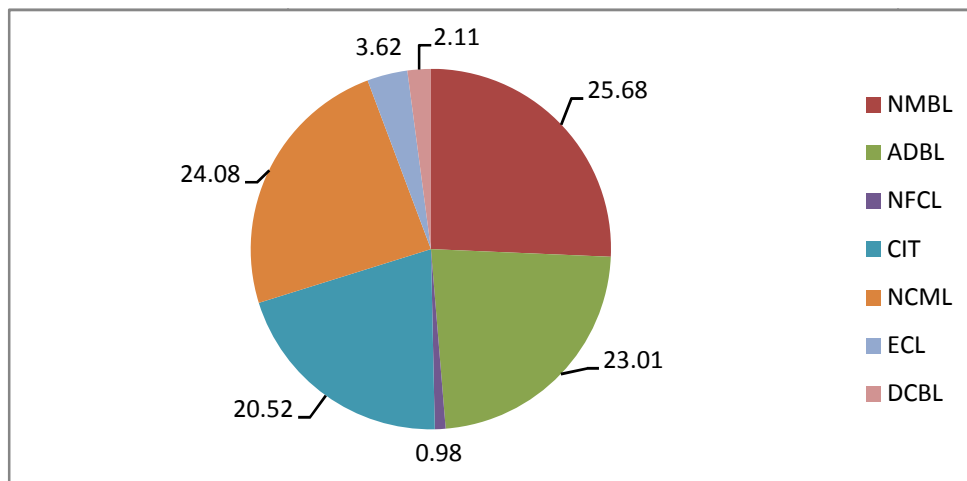
The above table gives the information of number and amount of issue managed by the issue managers in 2008/09, where out of 16 issue managers only seven are involved in the issue management activities. And even among them, highest number of issue managed is by NMBBL and NCML i.e. 17 issues (27.42%) and second highest is by ADBL i.e. 14 issues (22.58%). In terms of amount of issue managed highest Issued by NMBL (25.68%) and then NCML (24.08%) respectively. Number wise lowest issue is managed by DCBL i.e.1 i issues (2.11%) while amount wise NFCL has the lowest amount of issue managed (0.98%).

**Figure 4.3**  
**Number of Issue Managed**



The above figure 4.3 shows the number of issue managed by the issue managers. The highest number of issues is managed by NCML & NMBBL and the lowest number of issue is managed by DCBL

**Figure 4.4**  
**Amount of Issue Managed**



The above figure 4.4 shows the amount of issue managed by the issue managers. The highest amount of issue is managed by NMBBL and lowest amount of issue is managed by NFCL.

Figure 4.4 shows the highest amount is managed by NMBL and lowest amount of issue managed by NFCL.

#### 4.1.5 Investor Response to IPO

##### 4.1.5.1 Financial Sector

Financial Sector includes commercial bank, development banks, finance companies & insurance companies.

##### 4.1.5.1.1 Investor Response to Commercial Banks

There are 26 commercial banks among which only 21 are listed in the stock exchange. Nepal Arab Bank Limited (NABIL Bank) is the first commercial bank to issue Share to public. Public issues of commercial bank are highly appreciated by public. Investors give high priority and response to the public issue. From the population of all total of 21 only 7 are taken as sample.

**Table 4.6**

**Investor Response to Commercial Banks**

| S. No. | Name of Company | Share Issued ('000) | Applied   | Year | Subscription times | Result     |
|--------|-----------------|---------------------|-----------|------|--------------------|------------|
| 1.     | NSBIBL          | 360                 | 5056921   | 1994 | 14.04              | Over Subs. |
| 2.     | EBL             | 360                 | 18515663  | 1995 | 5.14               | Over Subs. |
| 3.     | MBL             | 1650                | 3272775   | 2003 | 1.98               | Over Subs. |
| 4.     | LBL             | 1925                | 4838488   | 2003 | 2.51               | Over Subs. |
| 5.     | SBL             | 1500                | 27979950  | 2005 | 18.65              | Over Subs. |
| 6.     | GBL             | 3000                | 102899626 | 2008 | 34.25              | Over Subs. |
| 7      | CBIL            | 3000                | 62990520  | 2009 | 20.98              | Over Subs. |

Source: NCML, CIT, NMB, ACE

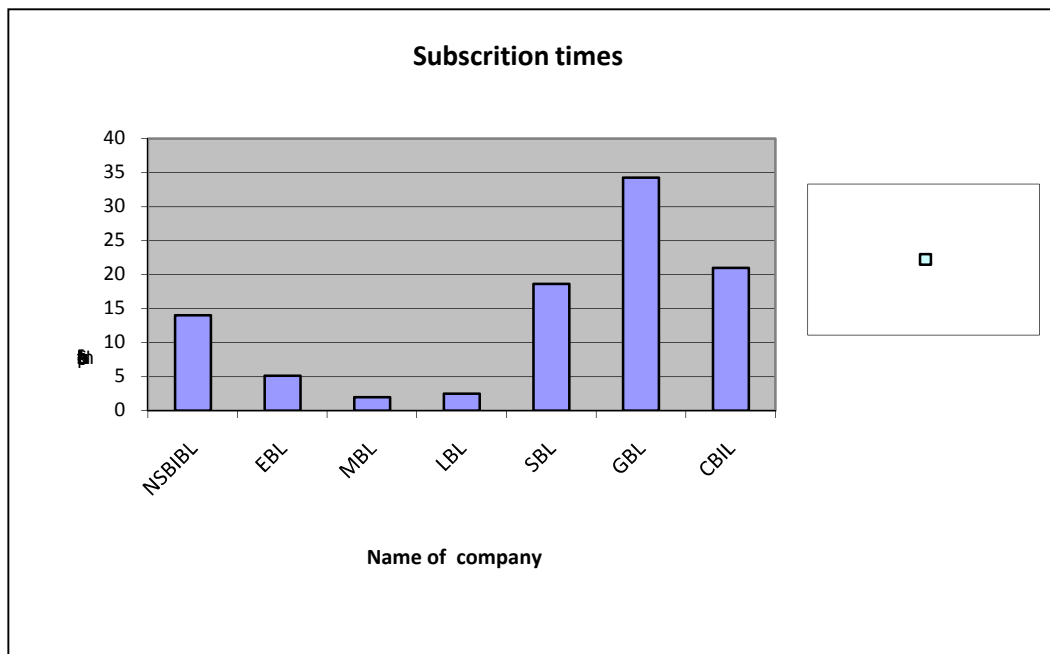
The above Table 4.5 gives the information about issued shares and applied shares of commercial bank, where we have found applied number of shares is higher than the issued one, i.e. all the issues are over subscribed. Over subscription ranges between 34.25 to 1.98 times. For the 3000000 shares issued by Global Bank Ltd. 102899626 shares have been applied that means it was over subscribed 34.25 times. Similarly 20.98 times subscription in the case Citizen Bank International Ltd., 18.65 times in Siddhartha Bank Ltd., 14.04 times in Nepal SBI Bank Ltd., 5.14



times in Everest Bank Ltd., 2.51 times in Laxmi Bank Ltd., 1.98 times in Machhapuchhre Bank Ltd..

From above it is clear that commercial banks share issues are getting overwhelming response from Investor. Investor found to be interested in shares of Commercial Banks.

**Figure 4.5**  
**Investor response to Commercial Banks**



The above Figure 4.5 shows that highest subscription is in the case of GBL with highest bar while the lowest bar shows that MBL is least subscribed.

#### **4.1.5.1.2 Investor Response to Development Bank**

There are 63 development banks among which only are 29 listed in the stock exchange. From the population of 29 only 8 are taken as sample.

**Table 4.7**

**Investor Response to Development Bank**

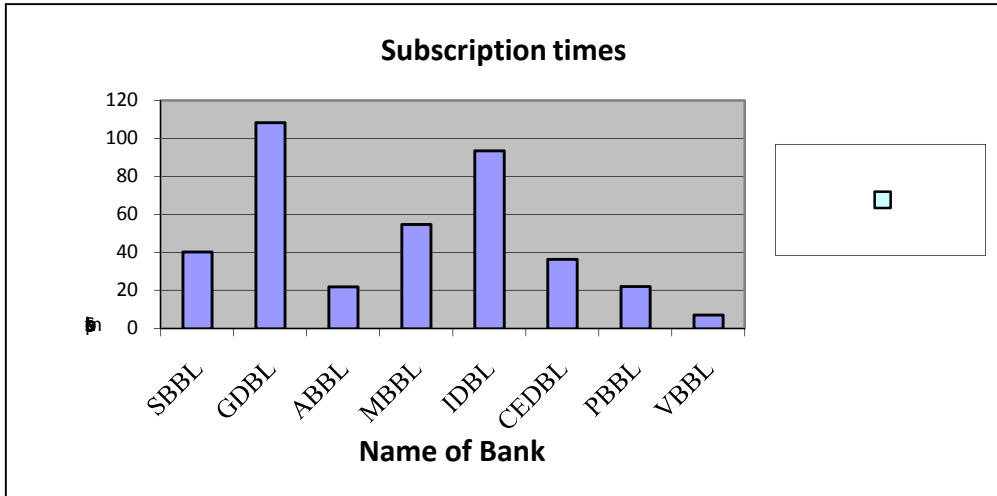
| S.No | Name of Bank | Shares Issued | Shares Applied | Issued Year | Subscription times | Result    |
|------|--------------|---------------|----------------|-------------|--------------------|-----------|
| 1.   | SBBL         | 960000        | 5773800        | 2006        | 40.31              | Oversubs. |
| 2.   | GDBL         | 960000        | 103987200      | 2006        | 108.32             | Oversubs. |
| 3.   | ABBL         | 294000        | 10307640       | 2007        | 21.94              | Oversubs. |
| 4.   | MBBL         | 150000        | 8226900        | 2007        | 54.84              | Oversubs. |
| 5.   | IDBL         | 240000        | 22463688       | 2007        | 93.55              | Oversubs. |
| 6.   | CEDBL        | 960000        | 35003040       | 2008        | 36.46              | Oversubs. |
| 7    | PBBL         | 800000        | 17657840       | 2009        | 22.07              | Oversubs. |
| 8    | VBBL         | 2652000       | 19042951       | 2009        | 7.18               | Oversubs. |

*Source: NCML, NMB, NFC, NEFINSCO, SEBON*

The above table shows the information of issued shares and applied shares of development bank by investors, where all the issue is found to be over Subscribed. That means Investor is also interested in development banks shares. Among them Gorkha Development Bank Ltd (GDBL) was highly subscribed in 2006, the Subscription time was 108.32. For the share issued 960000, there was application for 103987200 shares. Similarly Infrastructure Development Bank Ltd (IDBL) was over-subscribed by 93.55 times, Malika Bikas Bank Ltd (MBBL) by 54.85times, Sanima Bikas Bank Ltd (SBBL) was over-subscribed by 40.31 times, Clean Energy Development Bank Ltd (CEDBL) was over- subscribed by 36.46 times, Pashupati Bikas Bank Ltd (PBBL) was over-subscribed by 22.07 times, Annapurna Bikas Bank Ltd (ABBL) was over -subscribed by 21.94 times and Vivor Bikas Bank Ltd (VBBL) was over -subscribed by 7.18 times. The average subscription time is 48.08 times.

**Figure 4.6**

**Investor Response to Development Bank**



Source: NCML, NMB, NFC, NEFINSCO, SEBON

The Figure 4.6 shows that among development banks highest Subscription was in the case of GDBL with highest bar and lowest in the case of VBBL with lowest bar.

**4.1.5.1.3 Investor Response to Finance Companies**

There are altogether 61 listed finance companies from which 9 are taken for research investor response.

**Table 4.8**

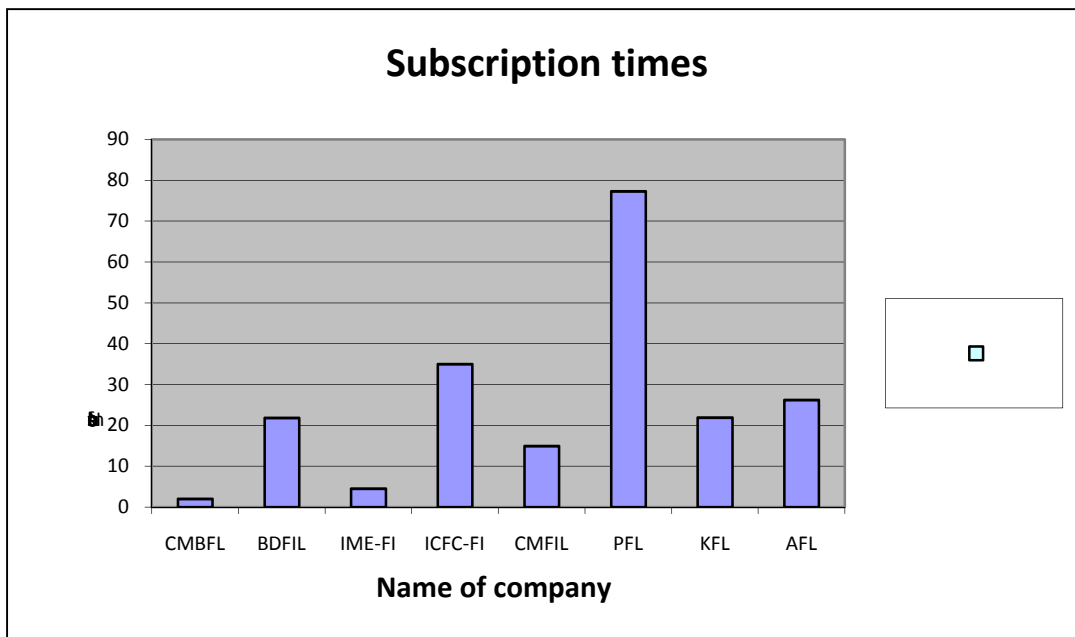
**Investor Response to Finance Companies**

| S.No. | Name of Company | Shares Issued | Shares Applied | Issued Year | Subscription times | Result    |
|-------|-----------------|---------------|----------------|-------------|--------------------|-----------|
| 1.    | CMBFL           | 280000        | 565881         | 2005        | 2.02               | Oversubs. |
| 2.    | BDFIL           | 120000        | 2626083        | 2006        | 21.88              | Oversubs. |
| 3.    | IME-FI          | 175000        | 801552         | 2006        | 4.58               | Oversubs. |
| 4.    | ICFC-FI         | 244000        | 8554640        | 2007        | 35.06              | Oversubs. |
| 5.    | CMFIL           | 200000        | 3000000        | 2007        | 15.00              | Oversubs. |
| 6.    | PFL             | 480000        | 37107840       | 2007        | 77.30              | Oversubs. |
| 7     | KFL             | 200000        | 4387000        | 2008        | 21.93              | Oversubs. |
| 8     | AFL             | 180000        | 4723740        | 2009        | 26.24              | Oversubs. |
| 9     | CFL             | 210000        | 6522812        | 2009        | 31.06              | Oversubs. |

Source: NCML, NMB, CIT, SEBON, NEFINSCO

In all the investor Response to Finance Companies we found over Subscription all the time. That means Investor is also interested in Finance Companies shares. Highest over Subscription of 77.30 times is in the case of Prabhu Finance Ltd (PFL), Where 37107840 shares are applied for only 480000 shares. There is 35.06 times subscription in case of ICFC Financial Institution Ltd (ICFC-FI), 31.06 times in Crystal Finance Ltd (CFL) 26.24 times in Api Finance Ltd (AFL), 21.93 times in Kaski Finance Ltd (KFL), 21.88 times in Business Development Financial Institution Ltd (BDFIL), 4.58 times subscription in IME Financial Institution Ltd (IMI -FIL), the least subscribed but still over-subscribed was in the case of Capital Merchant Banking & Finance Ltd (CMBFL) by 2.01 times. The average subscription time is 26.12 times. This all shows those investors are interested in shares of finance companies.

**Figure 4.7**  
**Investor Response to Finance**



*Source: NCML, NMB, CIT, SEBON, NEFINSCO*

Figure 4.7 clearly shows that PFL was highly subscribed while CMBFL is least subscribed. However no company is under subscribed.

#### 4.1.5.1.4 Investor Response to Insurance Companies

For the research only 6 companies are taken from the population of 17 .

**Table 4.9**

**Investor Response to Insurance Companies**

| S.No. | Name of Company | Shares Issued | Shares Applied | Issued Year | Subscription times | Result    |
|-------|-----------------|---------------|----------------|-------------|--------------------|-----------|
| 1.    | HGICL           | 120000        | 225756         | 1994        | 10.85              | Oversubs. |
| 2.    | EICL            | 120000        | 1301570        | 2002        | 7.56               | Oversubs. |
| 3.    | SICL            | 102000        | 33886541       | 2003        | 1.33               | Oversubs. |
| 4.    | PICL            | 200000        | 1913620        | 2004        | 9.57               | Oversubs. |
| 5.    | SICL            | 250000        | 10939650       | 2006        | 43.76              | Oversubs. |
| 6     | LGICL           | 250000        | 17932751       | 2007        | 71.73              | Oversubs. |

Source NCML, NMB, CIT

**Figure 4.8**

**Investor Response to Insurance**

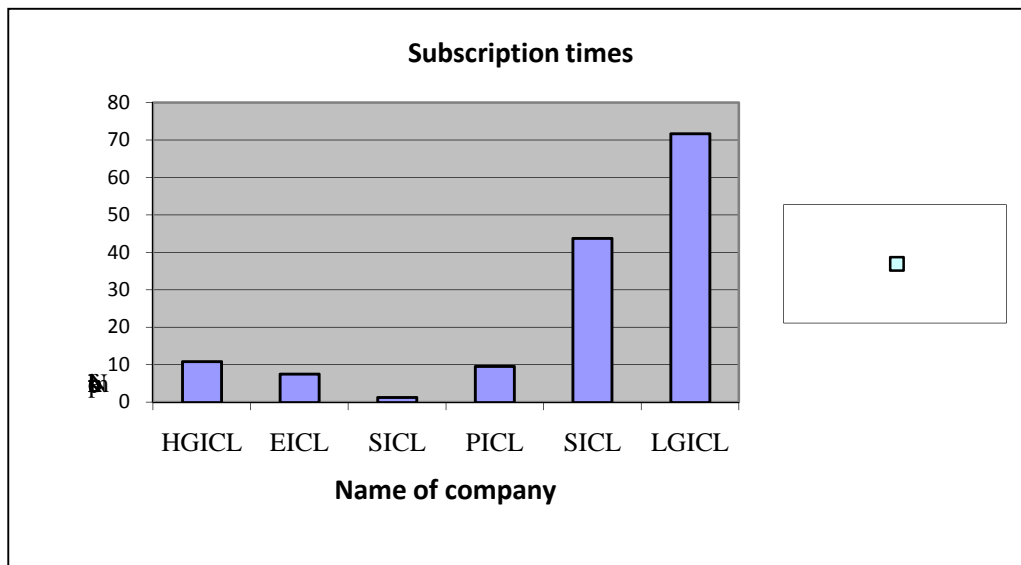


Table and Figure 4.8 shows the investor response to insurance companies ranges from 71.73 Subscription times to 1.88 times. The highest subscription is 71.73 times for 250000 shares of Lumbini General Insurance Company Ltd (LGICL) and the lowest subscription is 1.88 times for 120000 shares of Himalayan General Insurance Company Ltd. (HGICL). There are 10939650 shares applied for 250000 shares of Shikhar Insurance Company Ltd. (SICL) that is 43.76 times over subscription. In case of Sagaramatha Insurance Company Ltd. (SICL) 33.22 times over subscribed. There is 10.45 times subscription for 120000 shares of Everest Insurance Company Ltd. (EICL).

All this figures shows that people are highly interested to invest in Insurance Companies and they are also a good option to invest.

#### 4.1.5.2 Non-Financial Sector

Non-Financial Sector includes Manufacturing & Processing Companies, Trading Companies, Hotels and others. Up to the fiscal year 2008/09 end, there are 47 non -financial sector companies listed. From those here 9 are taken as sample.

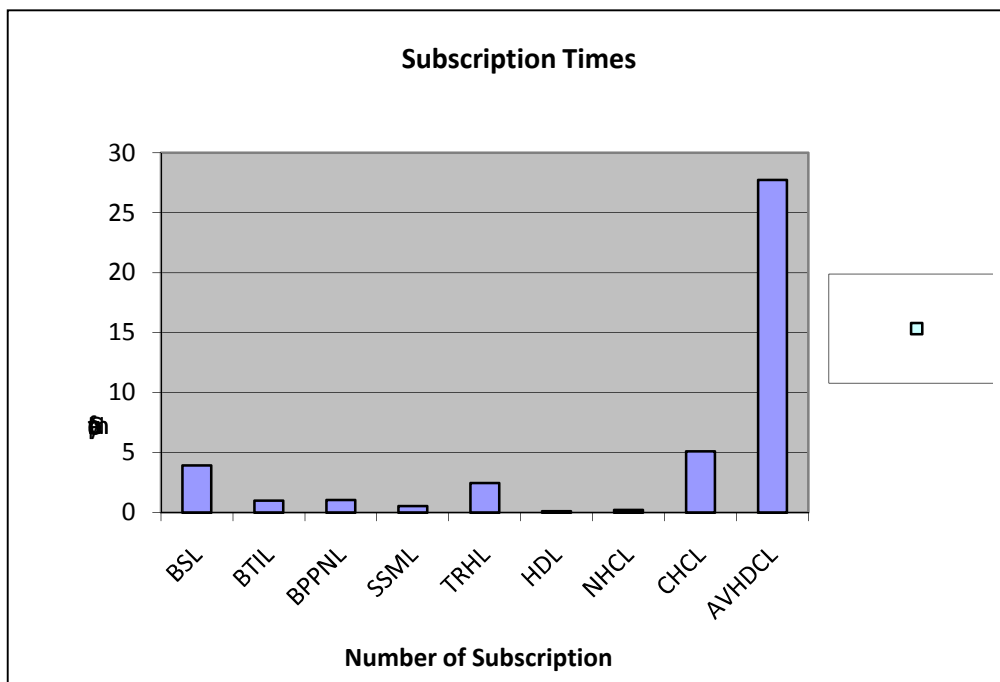
**Table 4.10**  
**Investor Response to Non-financial Sector**

| S. No. | Name of Company | Issued Shares | Applied Shares | Issued Year | Subscription times | Investor Response |
|--------|-----------------|---------------|----------------|-------------|--------------------|-------------------|
| 1.     | BSL             | 50000         | 197150         | 1994        | 3.94               | Over subs.        |
| 2.     | BTIL            | 75000         | 75000          | 1994        | 1.00               | Constant          |
| 3.     | BPPNL           | 1050000       | 1101135        | 1996        | 1.05               | Over subs.        |
| 4.     | SSML            | 465000        | 245985         | 1997        | 0.53               | Under subs.       |
| 5.     | TRHL            | 1200000       | 2965440        | 1999        | 2.47               | Over subs.        |
| 6.     | HDL             | 17344600      | 183347         | 2001        | 0.11               | Under subs.       |
| 7.     | NHCL            | 1400000       | 301700         | 2004        | 0.22               | Under subs.       |
| 8.     | CHCL            | 2374100       | 12104112       | 2005        | 5.10               | Over subs.        |
| 9.     | AVHDCL          | 515000        | 14287748       | 2009        | 27.74              | Over subs.        |

Source: NCML, NMB, CIT, NSML

From Table 4.10 it found the Subscription of three companies to be under -subscribed, one company to be remains constant and the rest of 6 companies to be over -subscribed. And at the same time over-Subscription ranges from 1.05 to 27.74 only which is seen to be lower than other financial sectors response. Investor is use of Shreeram Sugar Mills Ltd., Himalayan Distillery Ltd. & National Hydropower Co. Ltd., have the Sub scription of 0.53, 0.11 and 0.22 times respectively. Oriental Hotels has high Subscription of 6.29 times. Birat Shoe Ltd., Himgiri Textile Industries Ltd., Brikuti Pulp & Paper Nepal Ltd., Taragaon Regency Hotels Ltd. and Chilime Hydro Power Co. Ltd. have Subscription of 3.94, 1.57, 1.05, 2.47 & 5.10 times respectively.

**Figure 4.9**  
**Investor Response to Non-financial Companies**



*Source: NCML, NMB, CIT, NSML*

From Figure 4.9 it is clear that AVHDCL was highly subscribed with 27.74 times Subscription while Himalayan Distillery Ltd is least subscribed with 0.11 times among the non financial companies.

#### 4.2 Primary Data Analysis

To meet the objectives of the study about the responses of investors, the study is made with questionnaire survey. The questions are responded from 150 respondents.

### 4.2.1 Knowledge about IPO

Most of the Nepalese investors are lacking information about IPO, even they didn't hear about this term.

While getting information about if people had heard about IPO from 150 respondents 2.66% said they have never heard about IPO, 22.00% said seen in papers & books, 23.33% said that they have heard a little about it and rest 52% said that they are well-known about IPO.

**Table 4.11**  
**Knowledge about IPO**

|       | Alternatives          | No. of Respondents | Percentage (%) |
|-------|-----------------------|--------------------|----------------|
| a.    | Never heard           | 4                  | 2.66           |
| b.    | Seen in paper & books | 33                 | 22.00          |
| c.    | A little heard        | 35                 | 23.33          |
| d.    | Yes, of course        | 78                 | 52             |
| Total |                       | 150                | 100            |

(Source: Questionnaire no.1)

**Figure 4.10**

**Knowledge about IPO**

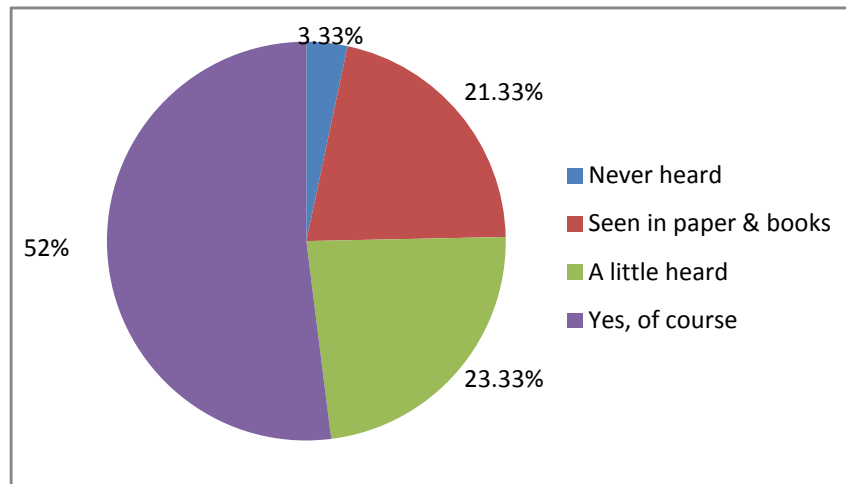


Figure 4.10 shows that 52% of the people have heard about IPO but 3.33% are unknown about the IPO, and 22% have seen in papers and books about the IPO while 23.33% have heard very little about IPO.



#### 4.2.2 Interest (Willingness) to invest in IPO

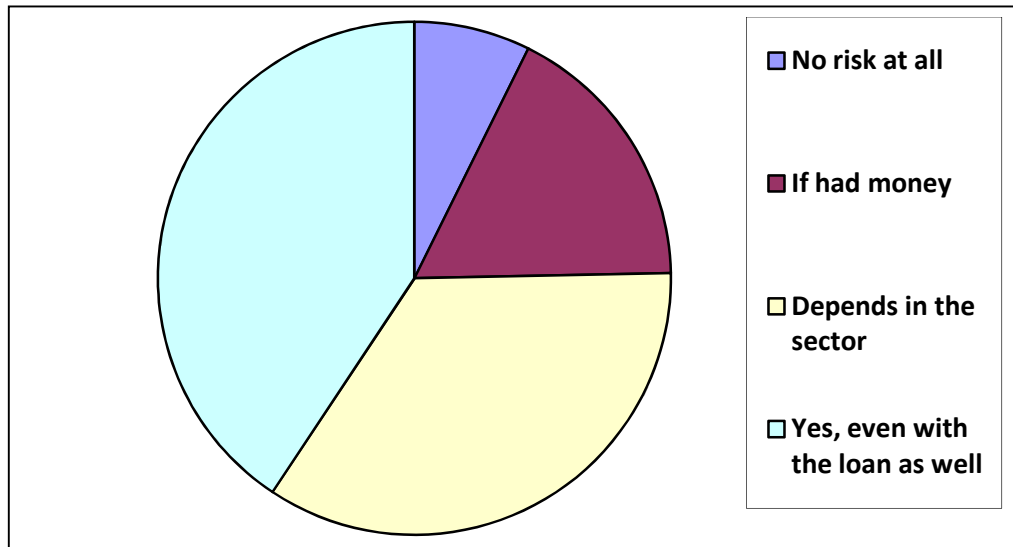
Only 10 respondents (i.e.7.33%) are found to be risk averter, they do not want to take risk at all from investing in IPO. 17.33% stated that they want to invest if had money (hard cash). 52 respondents (34.67%) stated that their interest to invest depends upon the sector. Rest 40.66% stated that they are willing to invest in IPO even with the loan if not the hard cash.

**Table 4.12**  
**Interest (Willingness) to invest in IPO**

|              | Alternatives                    | No. of Respondents | Percentage (%) |
|--------------|---------------------------------|--------------------|----------------|
| a.           | No risk at all                  | 11                 | 7.33           |
| b.           | If had money                    | 26                 | 17.33          |
| c.           | Depends in the sector           | 52                 | 34.67          |
| d.           | Yes, even with the loan as well | 61                 | 40.66          |
| <b>Total</b> |                                 | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.2)

**Figure 4.11**  
**Interest (Willingness) to invest in IPO**



From Figure 4.11 it is clear more than 40% people are interested to invest in IPO even with the loan and the least 6.67% do not want to take risk. Interest of 34.67% lies on the related sector of IPO. While 18% want to make only cash investment.

### 4.2.3 Source of Information about IPO

Out of 150 respondents, 41.33% said that they get information about IPO from Advertisements, 31.33% people said from personal relations or from market. Similarly 18% respondents said that they get information from. There are 9.33% people who find other way of getting information.

**Table 4.13**

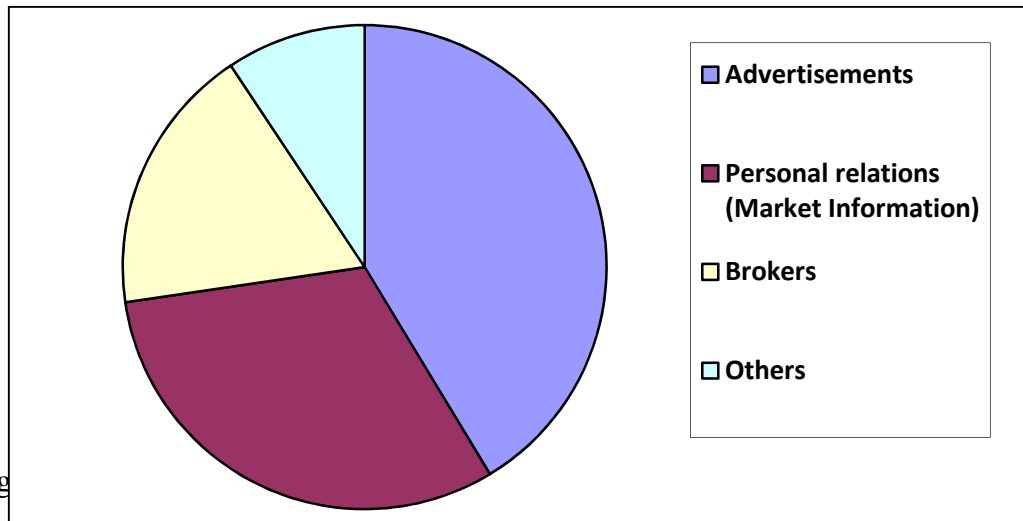
**Source of Information about IPO**

|              | Alternatives                            | No. of Respondents | Percentage (%) |
|--------------|---|--------------------|----------------|
| a.           | Advertisements                          | 62                 | 41.33          |
| b.           | Personal relations (Market Information) | 47                 | 31.33          |
| c.           | Brokers                                 | 27                 | 18.00          |
| d.           | Others                                  | 14                 | 9.33           |
| <b>Total</b> |   | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.3)

**Figure 4.12**

**Source of Information about IPO**



In the Fig source of information i.e.41.33% and only 18% are informed by the brokers and 31.33% get information from their relatives.

#### 4.2.4 Preference over: Investment sectors

Most of the retail investor of Nepalese IPO market is speculators who bet their money on any kind of IPO without properly analyzing the offer documents. This is partly due to the lack of diversity of stocks in the market which is dominated by the stocks of banks and financial institutions. Most of the IPOs are from this sector.

**Table 4.14**  
**Preference over: Investment sectors**

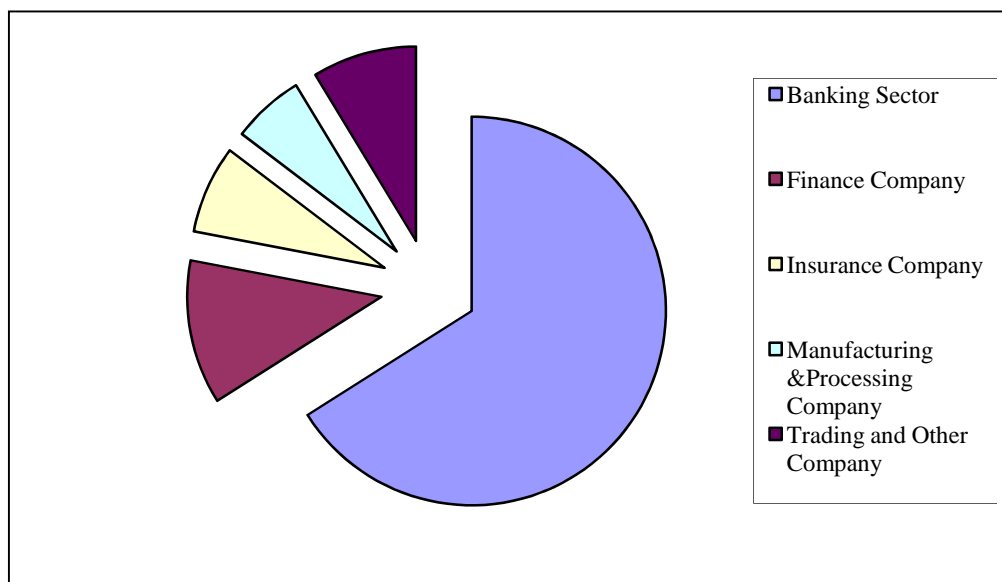
| S.N | Investment sector                  | No.of Respondents | Percentage (%) |
|-----|------------------------------------|-------------------|----------------|
| 1   | Banking Sector                     | 99                | 66.00          |
| 2   | Finance Company                    | 18                | 12.00          |
| 3   | Insurance Company                  | 11                | 7.33           |
| 4   | Manufacturing & Processing Company | 9                 | 6.00           |
| 5   | Trading and Other Company          | 13                | 8.66           |
|     | <b>Total</b>                       | <b>150</b>        | <b>100</b>     |

(Source: Field survey, Questionnaire No. 4)

The table 4.2 shows among 150 respondents 66% prefer commercial bank, 26.00% prefer development bank, whereas 12.00% prefers finance company as well as insurance sector are selected by 7.33% investors. Other sector like, 3.33% prefer manufacturing & Production Company, 2.67% prefer trading company as well as 6.00% prefer hotel. Other sector has been preferred by 1.33% investors.

Figure 4.13

Preference of investors on sector-wise IPO



The above figure shows almost of investors preferred commercial bank most and development bank preferred in second position.

### Hypothesis test

To check the statistic at validity of the observation, chi -square test has been calculated. Here, we have made the assumption that each respondent prefer all sector equally. The hypothesis to be tested is that all sectors are equally preferred, against the alternative that at least one sector is preferred more than the other remaining sectors.

**Null hypothesis  $H_0$**  = All eight sectors are equally preferred by the investors to make investment.

**Alternative hypothesis  $H_1$**  = All eight sectors are not equally preferred by the investors to make investments.

Calculated  $\chi^2$  Chi-square test = 200.399 (Details in Annex -1)

The tabulated  $\chi^2$  at 5% level of significance for 5 *d.f.* is 14.07. That is  $\chi^2_{0.05}(5) = 14.07$ .

Since the calculated value of Chi-square is greater than the tabulated value. It means the Null hypothesis is rejected. That is, the investors do not prefer all sectors equally. In the other word the investors prefer as the observed data given in the table. Banking sector is

the most preferred sector of investment for investors where as hotel, trading, insurance and manufacturing sectors are least preferred sectors.

#### 4.2.5 Investors evaluation while investing.

Most of investors prefer the banking sectors as we found in previous study. Investors prefer the good will of the companies and in this regard now banking sector take over the high place in the Nepalese market. Very least investor gives emphasis toward the type of company.

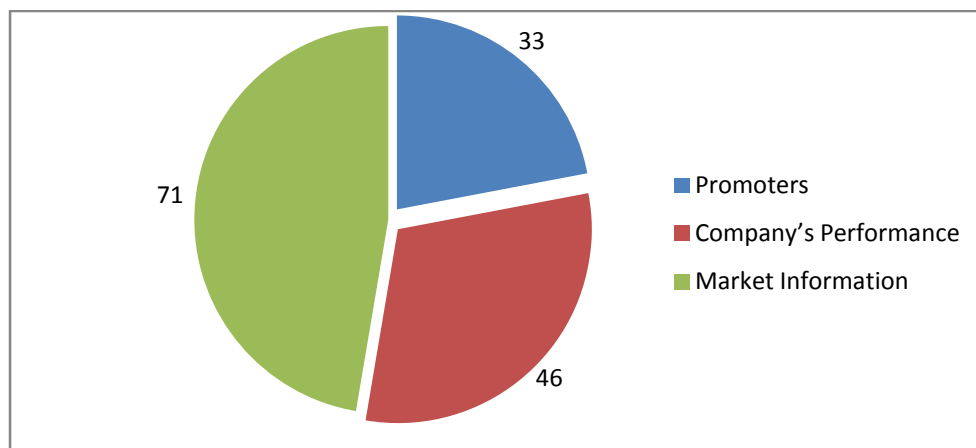
**Table 4.15**  
**Evaluating factors of investors**

| Attribute             | Respondents | Percentage (%) |
|-----------------------|-------------|----------------|
| Promoters             | 33          | 22.00          |
| Company's Performance | 46          | 30.66          |
| Market Information    | 71          | 47.34          |
| <b>Total</b>          | <b>150</b>  | <b>100</b>     |

(Source: Field survey, Questionnaire No. 5)

The table 4.6 shows majority of individual investors invest based on the market information of the company and most of the investors said that company's performance is the most important factor which guide whether they made investment or not. Where as only 22.00% of investors look upon the promoters of the company.

**Figure 4.14**  
**Evaluating factors of investors**



The figure also clears that the preference of investors over the companies' prestige or goodwill is important considerable factor which make investment to the investors. But rare investor say s the types of company have to consider while making investment decision.

### **Hypothesis testing**

Whether there is significant difference between the opinions of different responding group or not, the hypothesis was tested using chi -square.

**Null hypothesis  $H_0$**  = There is no significant different between the opinion of the different responding groups.

**Alternative hypothesis  $H_1$**  = There is significant different between the opinion of the different responding groups.

Calculated  $\chi^2$  Chi-square test = 14.92 (Details in Annex -2)

The tabulated  $\chi^2$  at 5% level of significance for 2 *d.f.* is 5.99. That is  $\chi^2_{0.05}(2) = 5.99$ .

Since calculate value is greater than tabulate value, it is highly significant and null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between the opinion of respondents groups.

Most investors refer prestige of the issuing company as well as some investor prefers the type of the company. But few investors prefers without knowing any information.

### **4.2.6. Investment Objective**

One most important feature of the Nepali IPO market is that most retail investors are speculators who bet their money on any kind of IPO with out properly analyzing the of fer documents. This is partly due to the lack of diversity of stocks in the market which is dominated by the stocks of banks and financial institutions. Most IPOs are from this sector. Most IPO subscribers in Nepal are short-term investors who are interested to sell the stocks as soon as they are listed in the stock exchange. Hence, most of the people view an IPO as a quick way to make money rather than a long-term investment.

**Table 4.16**  
**Investment Objective**

|    | Alternatives            | No. of Respondents | Percentage (%) |
|----|-------------------------|--------------------|----------------|
| a. | Quick way to make money | 93                 | 62.00          |
| b. | Long-term Investment    | 45                 | 30.00          |
| c. | Don't Know              | 12                 | 8.00           |
|    | <b>Total</b>            | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.6)

### Hypothesis testing

It was assumed that the investors will uniformly respond to all attributes.

**Null hypothesis  $H_0$**  = the response toward those 3 attributes are completely uniform.

**Alternative hypothesis  $H_1$**  = there is significant different in responses toward those 3 attributes.

Calculated  $\chi^2$  Chi-square test = 66.36 (Details in Annex -3)

The tabulated  $\chi^2$  at 5% level of significance for 2 *d.f.* 5.99. That is  $\chi^2_{0.05}(2) = 5.99$ .

Tabulated value of chi-square at 0.05 (2 *d.f.*) is 5.99. Since the calculated value exceeds the tabulated value, the null hypothesis is rejected. So it cannot be said that the response of investors are uniformly distributed to all factors.

### 4.2.7 Number of Companies Invested

Out of 150 respondents 41.33% said that they have invested in only one company, 36.67% said two to three company, and 7.33 said that they have invested in more than three companies and 14.67% were found to invest in none of the organization.

**Table 4.17**  
**Number of Companies Invested**

|              | Alternatives    | No. of Respondents | Percentage% |
|--------------|-----------------|--------------------|-------------|
| a.           | One             | 62                 | 41.33       |
| b.           | Two to three    | 55                 | 36.67       |
| c.           | More than three | 11                 | 7.33        |
| d.           | None            | 22                 | 14.67       |
| <b>Total</b> |                 | <b>150</b>         | <b>100</b>  |

(Source: Questionnaire no.7)

**Figure 4.15**  
**Number of Companies Invested**

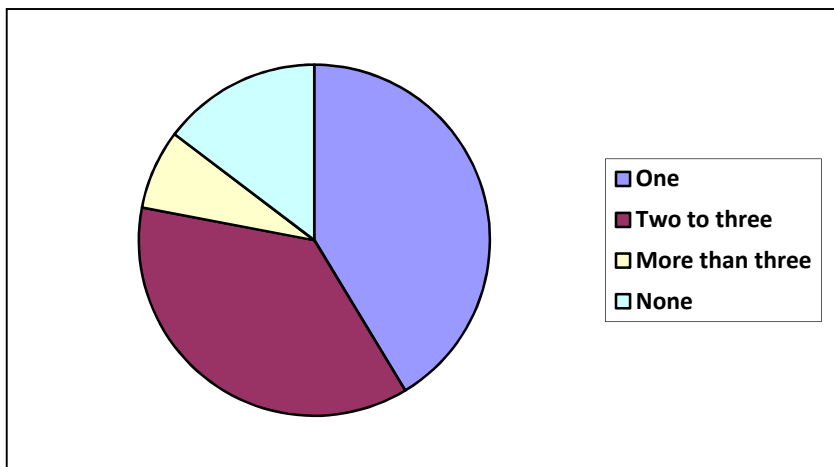


Figure 4.15 depicts that share investment in Nepal 7.33% has been found to have invested in more than three companies. Most (41.33%) have invested in only one company and 14.67% have invested in none.

#### **4.2.8 Fund Used for the Investment**

In the question of fund used in IPO investment, 92 respondents i.e. 61.33% answer personal fund while rest 38.67% answer loan/credit fund.



**Table 4.18**  
**Fund Used for the Investment**

|              | Alternatives  | No. of Respondents | Percentage (%) |
|--------------|---------------|--------------------|----------------|
| a.           | Personal Fund | 92                 | 61.33          |
| b.           | Loan/Credit   | 58                 | 38.67          |
| <b>Total</b> |               | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.8)

**Figure 4.16**  
**Fund Used for the Investment**

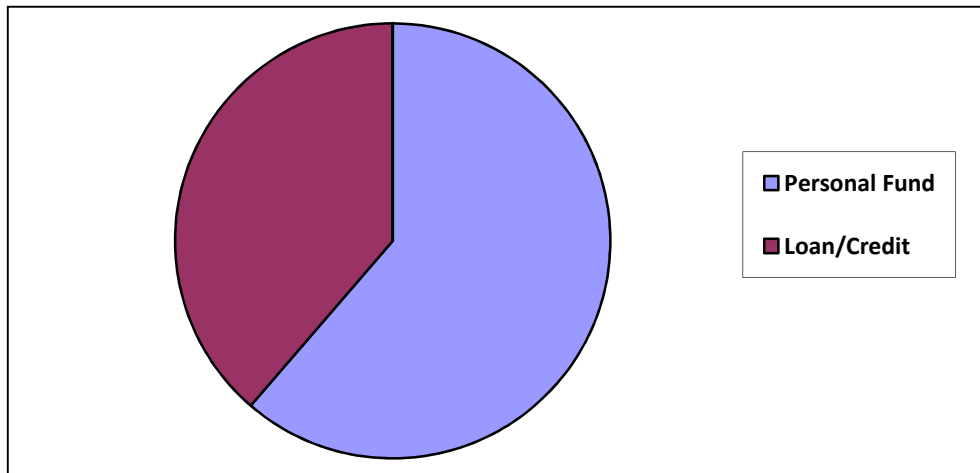


Figure 4.15 shows that more than half wants to use their own fund rather than credit.

#### 4.2.9 Funding Via Financial Institution Regulation

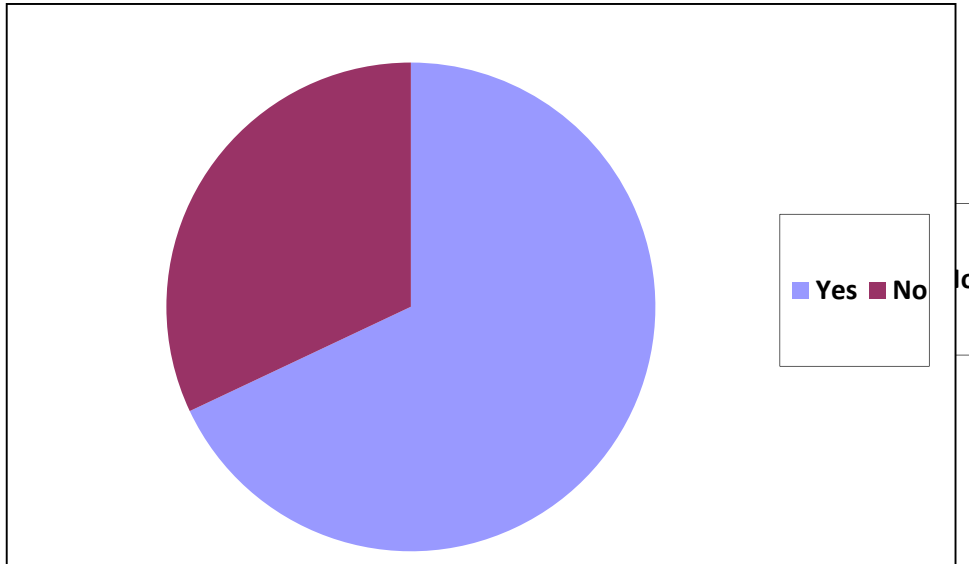
In the question whether IPO funding via financial institution should be regulated or not, 102 respondents i.e. 68% found to be in favor and rest 32% in against of it, they said it should not be regulated by NRB as middle class also can invest in it.

**Table 4.19**  
**Funding Via Financial Institution Regulation**

|              | Alternatives | No. of Respondents | Percentage (%) |
|--------------|--------------|--------------------|----------------|
| a.           | Yes          | 102                | 68.00          |
| b.           | No           | 48                 | 32.00          |
| <b>Total</b> |              | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.9)

**Figure 4.17**  
**Funding Via Financial Institution Regulation**



**4.2.10. SEBON’s new regulations.**

SEBON recently introduced a new set of rules to control the rampant misuse of personal identification document while applying for IPO. Now it is compulsory for each retail investor to have a bank account and to furnish attested copies of citizenship certificate. This new r egulation controls the several applications using the identification documents of many other individuals.

**Table 4.20**  
**SEBON’s new regulations**

|    | Alternatives | No. of Respondents | Percentage (%) |
|----|--------------|--------------------|----------------|
| a. | Yes          | 103                | 68.66          |
| b. | No           | 38                 | 25.33          |
| c. | Don’t Know   | 9                  | 6.00           |
|    | <b>Total</b> | <b>150</b>         | <b>100</b>     |

*(Source: Questionnaire no.10)*

**Hypothesis testing**

It was assumed that the investors will uniformly respond to all attributes.

**Null hypothesis  $H_0$**  = the response toward those 3 attributes are completely uniform.

**Alternative hypothesis  $H_1$**  = there is significant different in responses toward those 3 attributes.

Calculated  $\chi^2$  Chi-square test = 92.68 (Details in Annex -4)

The tabulated  $\chi^2$  at 5% level of significance for 3 *d.f.* 7.82. That is  $\chi^2_{0.05(3)} = 7.82$ .

Tabulated value of chi-square at 0.05 (3 d.f.) is 7.82. Since the calculated value exceeds the tabulated value, the null hypothesis is rejected. So it cannot be said that the response of investors are uniformly distributed to all factors.

#### 4.2.11. Pricing of IPO

There are different methods of pricing of IPO. Despite many methods available to price an IPO, all the IPOs in Nepal are still priced at a face value of Rs. 100. The recently issued new directive allows companies to price IPOs at premium of 2.5 times the book value, but this system still needs refinements. The present regulation requires companies to adopt the methods prescribed by Company Act 2063 for calculating the premium price. Arun Valley Hydropower is the example of a company that has issue its stocks at premium.

**Table 4.21**  
**Pricing of IPO**

|    | Alternatives | No. of Respondents | Percentage (%) |
|----|--------------|--------------------|----------------|
| a. | At Premium   | 27                 | 18.00          |
| b. | Face Value   | 102                | 68.00          |
| c. | Don't Know   | 21                 | 14.00          |
|    | <b>Total</b> | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.11)

The table 4.17 shows majority of investors prefer the IPO issued at face value.

#### Hypothesis testing

It was assumed that the investors will uniformly respond to all attributes.

**Null hypothesis  $H_0$**  = the response toward those 3 attributes are completely uniform.

**Alternative hypothesis H<sub>1</sub>** = there is significant different in responses to ward those 3 attributes.

Calculated  $\chi^2$  Chi-square test = 81.48 (Details in Annex -5)

The tabulated  $\chi^2$  at 5% level of significance for 2 *d.f.* 5.99. That is  $\chi^2_{0.05}(2) = 5.99$ .

Tabulated value of chi-square at 0.05 (2 *d.f.*) is 5.99. Since the calculated value exceeds the tabulated value, the null hypothesis is rejected. So it cannot be said that the response of investors are uniformly distributed to all factors.

#### 4.2.12 Influence Factors for Investment in IPO

There are many investment opportunities for invest in the market. Different people have different expectation behind investing in IPO. Greater part of the investors stated capital gain and dividend that impress to invest. For the question regarding these responses are as follows:

**Table 4.22**

**Influence Factors for Investment in IPO**

| Attribute    | NO. of Respondents | Percentage (%) |
|--------------|--------------------|----------------|
| Liquidity    | 26                 | 17.33          |
| Capital gain | 53                 | 35.33          |
| Dividend     | 35                 | 23.33          |
| Others       | 36                 | 24.00          |
| <b>Total</b> | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.12)

The investors have some objectives over investment that they make. Before invest, they analysis the factor which it can meet or not. With the table 4.10 clears that major investor (i.e. 57.33%) influence factor is capital gain than after dividend as 22.66%. Another influence factor is liquidity as 10.66%. Very rare investors observe social status and safety as 4.66% and 2.66% respectively. The study finds 2.00% have make investing objective for voting right.

With the study we can mention all factors are very crucial factors, which should be considered while making investment decisions. So, it was assumed that the investors will uniformly respond to all factors.

### Hypothesis testing

To test this uniformly chi-square test has been used.

**Null hypothesis  $H_0$**  = the response toward those 6 attributes are completely uniform .

**Alternative hypothesis  $H_1$**  = there is significant different in responses toward those 6 attributes.

Calculated  $\chi^2$  Chi-square test = 10.15 (Details in Annex -6)

The tabulated  $\chi^2$  at 5% level of significance for 3 d.f. is 7.82. That is  $\chi^2_{0.05}(3) = 7.82$ .

The tabulated value is less than calculated value that means there is significant different in responses toward those 4 attributes. The investors have different objectives which they seek while investment. Most of them prefer capital gain on their stock investment.

#### 4.2.13 Basis for distribution of Shares

While questioning about the basis for distribution of shares to investor 76% (114 respondents) were found to be in favor of pro-rate basis and the rest 24% (36 respondents) were in favor of lucky draw.

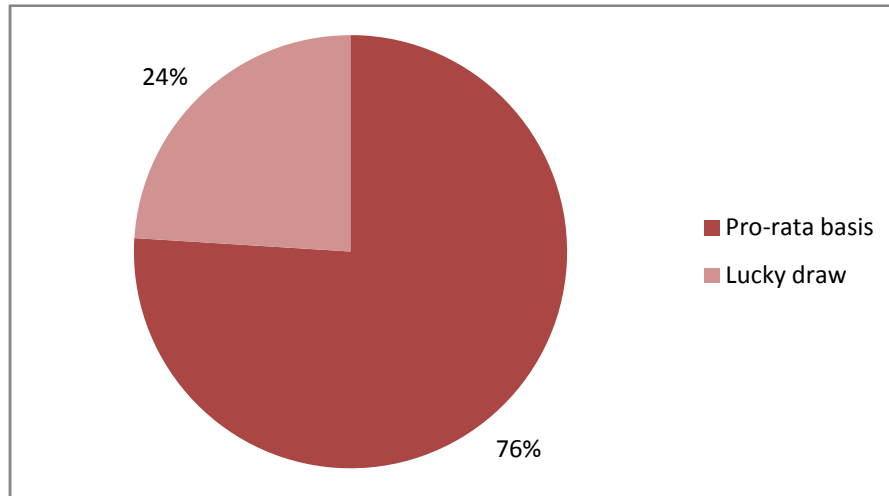
**Table 4.23**

**Basis for Distribution of Shares**

|              | Alternatives   | No. of Respondents | Percentage (%) |
|--------------|----------------|--------------------|----------------|
| a.           | Pro-rata basis | 114                | 76.00          |
| b.           | Lucky draw     | 36                 | 24.00          |
| <b>Total</b> |                | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.13)

**Figure 4.18**  
**Basis for Distribution of Shares**



In the Figure 4.22 it is clear that 76% people prefer pro -rata basis while only 24% prefer lucky draw basis for share distribution.

#### **4.2.14 Reason for not going Public**

All companies do not want to go Public. 28.67% think control is the only reason for it. Companies do not want to loose the control by going Public. 35% think they do not want to share profit, 5.33% think they do not want to bear the obligation to mass shareholders and remaining 30.67% think they do not want to make the management com plex by going Public.

**Table 4.24**  
**Reason for not going Public**

|              | Alternatives                    | No. of Respondents | Percentage (%) |
|--------------|---------------------------------|--------------------|----------------|
| a.           | To keep control                 | 43                 | 28.67          |
| b.           | Sharing of profit               | 53                 | 35.33          |
| c.           | Obligation to mass shareholders | 8                  | 5.33           |
| d.           | Complexity in management        | 46                 | 30.67          |
| <b>Total</b> |                                 | <b>150</b>         | <b>100</b>     |

(Source: Questionnaire no.14)

**Figure 4.19**

**Reason for not going Public**

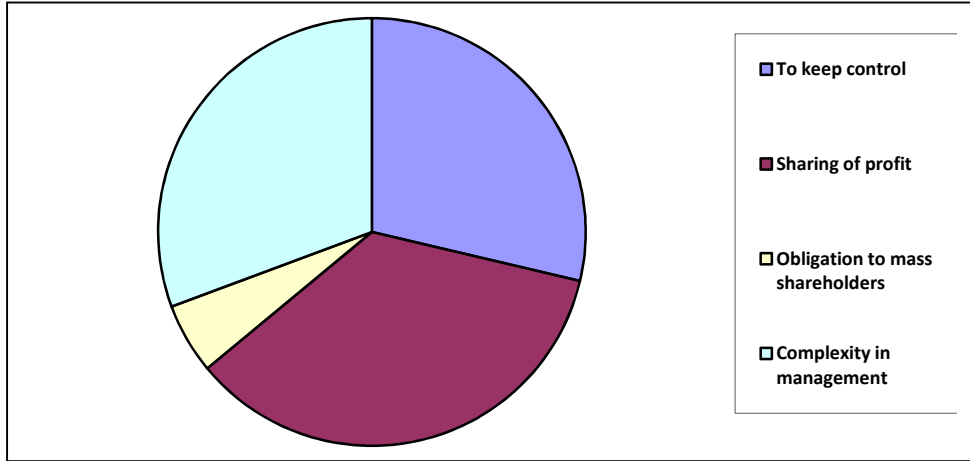


Figure 4.23 and Table 4.23 clearly show that the reason behind most of the companies not going Public is they do not want to share profit (35.33%), 30.67% believe company fears complexity in management, 28.67% believes it simply because companies want to keep full control, only 5.33% believes that companies do not want to increase obligation to mass shareholders.

**4.2.15 Reason for Limited People Investing in Primary Market**

Only limited people invest in the primary market. For the reason asked 21.33% stated this is due to lack of money, 3.67% stated due to lack of knowledge, 67.33% said people lacks information and only 2.67% stated other reasons.

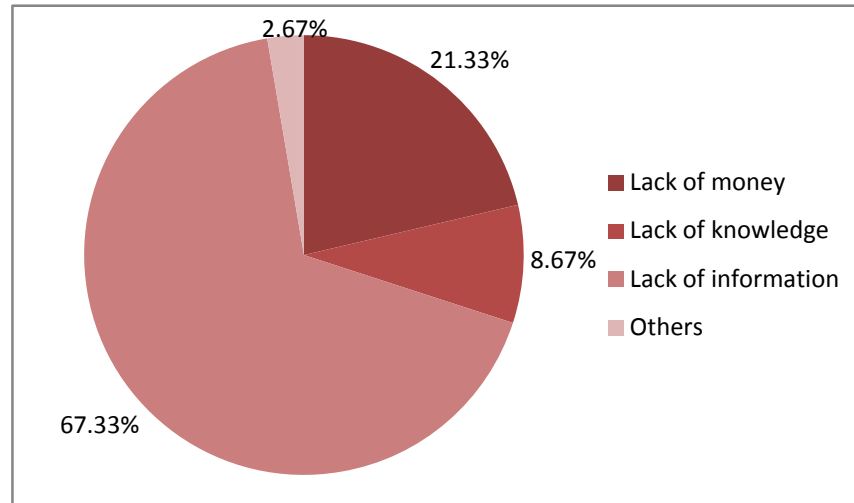
**Table 4.25**

**Reason for limited people investment**

| S.N          | Alternatives        | Respondents | Percentage (%) |
|--------------|---------------------|-------------|----------------|
| a.           | Lack of money       | 32          | 21.33          |
| b.           | Lack of knowledge   | 13          | 8.67           |
| c.           | Lack of information | 101         | 67.33          |
| d.           | Others              | 4           | 2.67           |
| <b>Total</b> |                     | <b>150</b>  | <b>100</b>     |

(Source: Questionnaire no.15)

**Figure 4.20**  
**Reason for Limited People Investment**



In the Figure 4.24 highest parts is covered by lack of information i.e. 67.33%, which means most people do not invest in primary market due to lack of information. 21.33% shows the reason of lack of money, 8.67% shows lack of knowledge and least 2.67% do not invest due to other reasons than these.

#### **4.2.16 Role of whim and Rumor to Investing Decision**

The question was asked to acquire the information about the influence of whim and rumor affect the decision to investing decision. Majority investors responded it highly influence toward whim and rumor.

##### **4.2.16.1 Attitude towards Whim and Rumor**

In this regard, the Nepalese investors have been influence with whim and rumors as well as they are not well informed and aware of features of initial public offering. Much of them have become investors without knowing anything, just in a hunch, or by accident.



**Table 4.26**  
**Influence by whim and Rumor**

| Attribute    | No.        | %          |
|--------------|------------|------------|
| Very high    | 34         | 22.67      |
| High         | 87         | 58.00      |
| Moderate     | 17         | 11.33      |
| Low          | 12         | 8.00       |
| <b>Total</b> | <b>150</b> | <b>100</b> |

*(Source: Field survey, Questionnaire no. 16)*

The above 4.25 table shows the investors attitude towards whim and rumor is high. Nepalese investors are highly influenced by whim and rumor rather than their own knowledge and capacity.

### **Hypothesis testing**

It was assumed that the investors will uniformly respond to all attributes.

**Null hypothesis  $H_0$**  = the response toward those 5 attributes are completely uniform.

**Alternative hypothesis  $H_1$**  = there is significant different in responses toward those 5 attributes.

Calculated  $\chi^2$  Chi-square test = 94.21 (Details in Annex -7)

The tabulated  $\chi^2$  at 5% level of significance for 3 d.f. 7.82. That is  $\chi^2_{0.05(3)} = 7.82$ .

Tabulated value of chi-square at 0.05 (3 d.f.) is 7.82. Since the calculated value exceeds the tabulated value, the null hypothesis is rejected. So it cannot be said that the response of investors are uniformly distributed to all factors. They stated the main cause for whim and rumor is lack of educational and technical qualifications about financial market.

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

### **4.3.1 Major Findings from Primary Data**

- The study found that most of investors like to invest in banking sector. Investors are found to believe that the share price of banking sector always rises and can earn dividend more compare to others.
- Among the financial sector people about 34.67% chooses commercial banks and in non - financial sector 44.67% choose manufacturing and processing company.

- Most of the investor about 76% prefer pro-rata basis for allotment but only 24% prefer lucky-draw.
- Many methods are available to price an IPO; all the IPOs in Nepal are still priced at a face value of Rs. 100. The study found that 68% investors are interested on IPO issuing with face value and only 18% are interested on IPO issuing with premium.
- Nepalese investors are highly influenced by market information that is 47.34% investor evaluate market information while investing on IPO and only 30.66% are interested in company's performance and only 22% investor go through evaluating promoters.
- As most of the companies do not want to share the profit with investor they do not go publicly. 35.33% believes that most of the companies do not want to go public as they do not want to share profit. 30.67% believes companies do not want complexion in the management. 28.67% thinks companies do not want to loose control, as 5.33% thinks they do not want to bear obligation towards shareholders.
- Still most of the people (67.33%) lack information regarding stock so limited number of people are investing in primary market. 21.33% do not invest as they lacks money.
- Nepalese investors preferred IPO as quick way to make money rather than long term investment. The study found that 62% investor view an IPO as a quick way to make money and only 30% investor invest in IPO as a long term investment.
- Nepalese investors are risk averter so of the do not like to invest from loan only 34% like to invest from the financial institution loan.
- The study finds capital gain and right share are the most impressive factor to investor for investment. Some investors preferred liquidity and social status as the objectives of the stock investment.
- Majority individual investors highly affected by whim and rumor. The investor s use to hold the decision of making investment on the basis of whim and rumor, investors realize themselves they also can't be detached from it.
- From the analysis of response to questionnaire, it comes to know that if any reputed company tries to promote and provide aware about IPO market, concerned body should give support to encourage to the investors.

### 4.3.2 Major Findings from Secondary Data

- Investor response to the financial institutions and insurance sectors is higher than non - financial sector. In case of financial sector among the 23 sample all are oversubscribed i.e. 100 % only whereas in non-financial sector 3 are undersubscribed i.e. 33.33% among the 9 samples.
- Among the 9 issues managers in the year 2006/07 only 5 have managed the issue. And even among them NCML and NMBL are seems to be the dominant one as they both rank first and second respectively in terms of highest number of issue managed (34.38% and 31.25%) and highest amount of issue is managed by CIT and NCML (41.5% and 25.55%
- Pace of public offering is also increasing as amount of in approved continuously increase from 1993/94 (244.4 million) to 2001/2002 (1441.33 million) then decreased one time and again started increasing and reached at 2443.28 million in 2005/2006 and again decreased at 2295.5 million in 2006/07 again started increasing and reached at 16828.51 million in 2008/09.

## CHAPTER - V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

Primary market is the market for new securities. The key mechanism of primary market is initial public offering (IPO). The first time issuance of securities to the public is known as IPO. The securities market consists of new issue market and Stock Exchange. New securities are offered to the investors for the first time through Initial Public Offering. Primary market allows issuance of new securities in order to help the issuing companies to raise funds for starting new enterprise or for expansion and diversification of the existing ones. The securities market development in Nepal is in early stage of growth.

The basic objective of this study is to assess public response to the initial public offering; this study also focuses on the dealing process and pace of the initial public offerings. 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.

The securities market plays a strong role in bringing into contact the firm and the individuals. So it can be said that the confidence of the public depends heavily on the functioning and the implementation of regulations of SEBON. Securities Board Nepal is the regulatory body of Nepalese stock market. Stock Exchange Limited is the trading body. Before going to the public, the company must be approved from SEBON. After getting approval, issuing company must give its information to the Nepal stock Exchange Limited and Company Register's Office.

Issuing company is free to choose one or more than one issue manager/s for the process of issuing the shares. Bankers to the issue also involve during this period. Issue manager has to publish a public notice in the national daily newspapers to offer public for investment. The notice must be published seven days before the application form distribute date. The issue manager has to publish and distribute the prospects. Prospects make easy to the public to decide whether to invest their money in the share or not. The

Application period must not be more than one month. If issue managers think the required applications have been collected, they can close, anytime after one week, to receive application. If over application is received, the distribution of share should be decided through allotment procedure. For this purpose additional 40 to 90 days can be taken. After allotment within next 15 days the issue manager has to refund the money of those public whose application has not been accepted. Within 30 days of refund period the certificates has to be distributed.

According to Securities Board, 324 issue approval of different companies for public issue. There are 159 companies listed in Nepal Stock Exchange Limited. In a year 2008/09, maximum, 63 companies have got approval from SEBON. Minimum 5 companies have got approved form SEBON in each of the year 1996/97, 1998/99. Public response to the financial institutions and insurance sectors is higher than non financial sectors

Most of the investors in Nepal lack the knowledge about IPO and if even they know, they do not want to take risk at all. For this prevailing situation of the country can be another reason. Loans from financial institution for IPO funding is breaking the healthy practice as single man app lies from different names and captures large number of shares which ultimately influence company management and stock price too.

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

Nepali investors have developed an increasing interest in the capital market. Although still at a nascent stage, the local capital market, especially the primary market, has been fast growing. The majority of initial Public Offering (IPOs) are highly oversubscribed. However m though investing in IPOs often guarantees returns, there also are risks in such i nvestments. The investors should be aware of these risks and return.

From 1993/94 to 2008/2009 SEBON has approved 324 issues amounting Rs. 39389.90 million. The highest number of issues is in the year 2007/2008 and 2008/2009 which is 64 and the lowest

is in 1996/1997 and in 1998/1999 which is 5 only. In the 324 issues 152 were oversubscribed, 87 were undersubscribed and 85 were constant.

While analyzing the Investor response in financial sector, in average 13.93 times Subscription found in Commercial Bank. For the development bank Subscription time of 48.08 in average is found, for the finance companies average Subscription is 26.11 times. For the Insurance Companies average Subscription is 24.13 times. From all this it is clear that most desirable financial sector is development bank sector, 48.08 Times Subscription for the whole financial sector. Similarly, only 4.68 times Subscription was found in case of non -financial sector. It gives the clue that public are more attracted toward financial sector than non-financial sector.

NCML and NMBL are seems to be the dominant one as they both rank first and second respectively in terms of highest number of issue managed 27.42 and highest amount of issue is managed by NMBL and NCML that is 25.68% and 24.08% respectively.

From the primary data analyzes it is clear that most of the public are aware about the IPO, only 2.00% do not have heard about IPO. 6.67% people do not want to take risk while 40.66% want to invest in IPO even with the loan. Most of the respondents (23.33) seen to be informed about IPO from advertisements. Among the investors 30.66% people give preference to company's performance before investment. 22.00% are interested in the promoter's recognition.

Most of the respondents (41.33%) have invested in only one company; only 7.33% have invested in more than three company. 14.67% have not invested in any organization. More than 65% respondents prefer personal fund than credit/loan. 68% of the respondents are in favor that IPO funding through financial intuitions should be regulated by NRB. About 24.66% expects right share from the investment, 23.33% expects cash dividend at the year end.

About 85.33% are interest to invest in financial sector and only 14.66% are in non - financial sector. From among the financial sector 66% are interested in banking sector, 12% in finance companies and only 7.33% in insurance companies and from nonfinancial sector 8.66% are interested in trading and other company and only 6% are interested in manufacturing and

processing company. 76% investor prefer pro-rata basis for share allotment rather than lucky draw. 35.33% people think that most companies do not go public as they do not want to share profit with public, whereas 28.67% think it's because they want to keep control with themselves, 30.67% thinks as it may bring complexity in management. Most of the people (67.33%) show the reason of lack of information for limited people investing in primary market and only 21.33% think it's due to lack of money.

Most of the respondents, about 58.00% are of the view that capital market is driven by whim and rumor. Most of the investor views an IPO a quick way to make money rather than long term investment only few investors hold shares for long time that is they want short term benefit. In Nepal IPO is still priced at a face value of Rs. 100 rather than premium. Most of the respondents prefer pricing the IPO at face value rather than premium.

This study has found that public response to the primary market is highly positive because people are getting aware of stock market, flow of money in the market is higher, people have realized the importance of the investment in shares, people have seen that most companies are distributing dividends, share prices of most companies are increasing and a lack of better alternative for investment.

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.

#### **5.4 Conclusion**

Nepali Investors have developed an increasing interest in the capital Market. Although still at a developing stage the primary market has been fast growing. Most of the general investors in Nepal do not have sufficient information regarding the primary market but still they are interested to invest money in the primary market. This is good sign to the expansion of the primary market.

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

sector. Pace of initial public offering in Nepal seems to be irregular. The number of companies approved for public offering by SEBON in a single year varies from 18 to 5. The high est amount of issue approved by the board was Rs.16828.51 million while the lowest amount of issue was Rs.173.96 million. If we see on the basis of sector, SEBON had granted 80.5% approval for financial institutions and insurance sectors and 19.5% approval for non financial sectors. Out of 61140.39 million, the financial and insurance sectors paid up capital hold 63.73% and that of non financial sectors hold 36.27%.

Even though the organization's process of public offering is quite long ; the service provided to the investors seems to be satisfactory. If raising interest of the public in to primary market is one of the objectives, then the primary market of Nepal is fulfilling this role gradually. The structure of both segments of the market primary/New and secondary/Stock exchange has witnessed significant change. Some of the important development in the primary market which deserve specific mention are the establishment of merchant banks, provision of speedy up allotment/refund, proportionate allotment of shares, allotment of financial institution, increase in minimum application amount of investment in primary issue such change have brought significant public response in new issue. The secondary market which presented an institutional mechanism that may be transparent, hardly regulate and rarely feared to investor's protection but not yet in practice. Among them are prescription of norms for intermediaries like broker in trading/settlement and the bound of stock exchange with participant from stock exchange members and investors. The exchange has made tremendous effect in the volume of transaction, share turnover, number of shareholders, public response and market Capitalization.

If raising interest of the public in to primary market is one of the objectives, then the primary market of Nepal is fulfilling this role gradually. The structure of both segments of the market primary/New and secondary/Stock exchange has witnessed significant change. Some of the important development in the primary market which deserve specific mention are the establishment of merchant banks, Provision of speedy up allotment/refund, proportionate allotment of shares, allotment of Financial institution, increase in minimum application amount of investment in primary issue such change has brought significant public response in new issue.



IPO markets are always fruitful for companies to raise capital from the market. However, companies should make a good choice regarding the type of issues and understand the market sentiments to make their IPOs successful. Similarly, the regulatory body should inform and educate the market about IPOs, and advise the investors to base their decision not only on the information. With the capital market continuing to grow, the investors can expect more IPOs in the future. Also the regulations and processes will evolve and become better.

## 5.5 Recommendations

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

- Investing in shares is a gamble which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and ever changing market conditions. They should not buy the shares of a company until they know details about it.
- Most of the public issues are from banking and finance sector so issue -manager should take initiative step to promote their business from other sectors too. They should be equally effortful in developing the public offering market as an avenue for cost effecting financing.
- Investment bankers and Issue managers play a vital role in the IPO process, they should try to give more transparent, fast, hassle free service so that more public involve in the IPO.
- Nepali Merchant banks have upgraded their capabilities and started offering online application system for IPOs; the investors are still required to go through the traditional paper-based system because SEBON is yet to put in place the required system to make it fully functional. Online application should be start soon to facilitate the application procedure of IPO.
- Before investing in any company, all the investors must go through the company's financial details, prospectus, and other relevant information about the company rather than market whim and rumors.

- Issuing companies should make a good choice regarding the type of issues and understand the market sentiments to make their IPOs successful. Similarly the regulatory body should inform and educate the market about IPOs, and advise the investors to base their decision not only on the information provided in the offer documents but to seek more information.
- Small investors are also the part of primary market, so IPO funding through financial institution should be strictly regulated to discourage the big investors who place several applications using the identification documents of many other individuals.
- The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
- The government, concerned bodies and individuals have to work hard to make the investment in securities preferable to investors by implementing the rules, regulations, policies and activities more strictly. The regulatory authorities of the stock market should try to rise the trading of shares by regulating the activities and performance concerned bodies such as brokers and the listed companies frequently to create the efficient pricing of shares.
- A regulation is urgently needed for pricing the stocks. All the IPOs in Nepal are still priced at a face value of Rs.100. the recently issued new directive allows companies to price IPOs at a premium of 2.5 times the book value, but this system still needs refinements.
- Most IPO subscribers in Nepal are short-term investors who are interested to sell the investors who are interested to sell the stocks as soon as they are listed in the stock exchange. Also they are not aware about the whole process of IPO. They are investing on IPO as a quick way to make money rather than a long -term investment.
- The issue managers are required to park the application money in an account with the Nepal Rastra Bank. This is meant to discourage the practice of collecting applications not backed by application money. If an applicant does not get the stock allotted on his/her name, the money is returned to him/her by issuing a check payable in the bank account mentioned in the application form.

- Application from each corner of the country should be asked so that all interested candidates could apply on IPO. As it is found th at most of the IPO's are concentrated in the valley only.
- Presently, intuitional players have not been able to play any noticeable role in the stock exchange. Limited market, allotment procedure and emphasis of small investors have not helped to enhance the role of the institutional players. Increased role of such players will make the market more competitive.
- While investing or trading in the primary or secondary market, the major consideration should be made that of the promoters, directors and managers i n Nepal. Other considerations may be market prospect, professionalization of management and overall environment.

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Search engine, <<http://www.google.com>>

## ANNEX: 1

### Preferenc Sector

Calculation of chi-square test

|                           | O     | $E = \frac{O}{n}$ | O - E | $(O - E)^2$ | $\frac{(O - E)^2}{E}$ |
|---------------------------|-------|-------------------|-------|-------------|-----------------------|
| Banking Sector            | 99    | 30                | 69    | 4761        | 158.96                |
| Finance Company           | 18    | 30                | -12   | 144         | 4.8                   |
| Insurance Company         | 11    | 30                | -19   | 361         | 12.033                |
| Mfg. & Processing Company | 9     | 30                | -21   | 441         | 14.7                  |
| Trading & Other company   | 13    | 30                | -17   | 289         | 9.63                  |
| Total                     | O=150 | E=150             |       |             | 200.399               |

$$\text{Calculated } \chi^2 = \frac{(O-E)^2}{E} = 200.399$$

$$\text{Degree of freedom} = n-1 = 5-1 = 4$$

$$= 5\%$$

$$\text{Tabulated } \chi^2_{0.05}(4) = 14.07$$

## ANNEX: 2

### Evaluation factor of investment

Calculation of chi-square test

|                       | O     | $E = \frac{O}{n}$ | O - E | $(O - E)^2$ | $\frac{(O - E)^2}{E}$ |
|-----------------------|-------|-------------------|-------|-------------|-----------------------|
| Promoters             | 33    | 50                | -17   | 289         | 5.78                  |
| Company's Performance | 46    | 50                | -4    | 16          | 0.32                  |
| Market Information    | 71    | 50                | 21    | 441         | 8.82                  |
| total                 | O=150 | E=150             |       |             | 14.92                 |

$$\text{Calculated } \chi^2 = \frac{(O-E)^2}{E} = 14.92$$

$$\text{Degree of freedom} = n-1 = 3-1 = 2$$

$$= 5\%$$

$$\text{Tabulated } \chi^2_{0.05}(2) = 5.99$$

### ANNEX: 3

#### Investment Objective

Calculation of chi-square test

|                         | $O$     | $E = \frac{O}{n}$ | $O - E$ | $(O - E)^2$ | $\frac{(O - E)^2}{E}$ |
|-------------------------|---------|-------------------|---------|-------------|-----------------------|
| Quick way to make money | 93      | 50                | 43      | 1849        | 36.98                 |
| Lont-term investment    | 45      | 50                | -5      | 25          | 0.5                   |
| Don't know              | 12      | 50                | -38     | 1444        | 28.88                 |
| total                   | $O=150$ | $E=150$           |         |             | 66.36                 |

$$\text{Calculated } \chi^2 = \frac{(O-E)^2}{E} = 66.36$$

$$\text{Degree of freedom} = n-1 = 3-1 = 2$$

= 5%

$$\text{Tabulated } \chi^2_{0.05}(2) = 5.99$$

### ANNEX: 4

#### SEBON's new Regulation

Calculation f Chi-square test

|            | $O$     | $E = \frac{O}{n}$ | $O - E$ | $(O - E)^2$ | $\frac{(O - E)^2}{E}$ |
|------------|---------|-------------------|---------|-------------|-----------------------|
| Yes        | 103     | 50                | 53      | 2809        | 56.18                 |
| No         | 38      | 50                | -12     | 144         | 2.88                  |
| Don't Know | 9       | 50                | -41     | 1681        | 33.62                 |
| Total      | $O=150$ | $E=150$           |         |             | 92.68                 |

$$\text{Calculated } \chi^2 = \frac{(O-E)^2}{E} = 92.68$$

$$\text{Degree of freedom} = n-1 = 3-1 = 2$$

= 5%

$$\text{Tabulated } \chi^2_{0.05}(2) = 5.99$$



## ANNEX: 5

### Pricing of IPO

Calculation of chi-square test

|            | O     | $E = \frac{O}{n}$ | O - E | $(O - E)^2$ | $\frac{(O - E)^2}{E}$ |
|------------|-------|-------------------|-------|-------------|-----------------------|
| At Premium | 27    | 50                | -23   | 529         | 10.58                 |
| Face Value | 102   | 50                | 52    | 2704        | 54.08                 |
| Don't Know | 21    | 50                | -29   | 841         | 16.82                 |
| Total      | O=150 | E=150             |       |             | 81.48                 |

$$\text{Calculated } \chi^2 = \frac{(O-E)^2}{E} = 81.48$$

$$\text{Degree of freedom} = n-1 = 3-1 = 2$$

$$= 5\%$$

$$\text{Tabulated } \chi^2_{0.05}(2) = 5.99$$

## ANNEX: 6

### Influence Factors for Investment in IPO

Calculation of chi-square test

|              | O     | $E = \frac{O}{n}$ | O - E | $(O - E)^2$ | $\frac{(O - E)^2}{E}$ |
|--------------|-------|-------------------|-------|-------------|-----------------------|
| Liquidity    | 26    | 37.5              | -11.5 | 132.25      | 3.5266                |
| Capital gain | 53    | 37.5              | 15.5  | 240.25      | 6.4066                |
| Dividend     | 35    | 37.5              | -2.5  | 6.25        | 0.1666                |
| Others       | 36    | 37.5              | -1.5  | 2.25        | 0.06                  |
| total        | O=150 | E=150             |       |             | 10.1598               |

$$\text{Calculated } \chi^2 = \frac{(O-E)^2}{E} = 10.1598$$

$$\text{Degree of freedom} = n-1 = 4-1 = 3$$

$$= 5\%$$

$$\text{Tabulated } \chi^2_{0.05}(3) = 7.82$$

## ANNEX: 7

### Attitude toward Whim and Rumor

Calculation of chi-square test

|                  | <b>O</b>     | $E = \frac{O}{n}$ | <b>O - E</b> | $(O - E)^2$ | $\frac{(O - E)^2}{E}$ |
|------------------|--------------|-------------------|--------------|-------------|-----------------------|
| <b>Very high</b> | 34           | 37.5              | -3.7         | 12.25       | 0.3266                |
| <b>High</b>      | 87           | 37.5              | 49.5         | 2450.25     | 65.34                 |
| <b>Moderate</b>  | 17           | 37.5              | -20.5        | 420.25      | 11.2066               |
| <b>Low</b>       | 12           | 37.5              | -25.5        | 650.25      | 17.34                 |
| <b>total</b>     | <b>O=150</b> | <b>E=150</b>      |              |             | <b>94.2132</b>        |

Calculated  $\chi^2 = \frac{(O-E)^2}{E} = 94.2132$

Degree of freedom =  $n-1 = 4-1 = 3$   
= 5%

Tabulated  $\chi^2_{0.05}(3) = 7.82$

## Questionnaire

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

### Respondents Profile

Name: .....

Address: .....

Occupation: .....

Qualification: .....

Date: .....

### Questions for the survey

1. Have you ever heard about IPO?
  - a. Never heard
  - b. Seen in papers and books
  - c. A little
  - d. Yes, of course
  
2. Would you like to invest in IPO?
  - a. No risk at all
  - b. If had money
  - c. Depends on the sector
  - d. yes, even with the loans
  
3. How do you come to know about IPO of any company?
  - a. Advertisements
  - b. Personal relations (market info)
  - c. Brokers
  - d. others
  
4. In which sector's IPO, do you think have more opportunity for investment to the public?
  - a. Banking Sector
  - b. Finance Company
  - c. Insurance Company
  - d. Manufacturing & Processing Company
  - e. Other Company
  
5. What factor do Nepalese investors evaluate while investing?
  - a. Promoters
  - b. Company's Performance
  - c. Market information
  
6. Do you think IPO as a quick way to make money rather than a long-term investment?
  - a. Quick way to make money
  - b. Long-term investment
  - c. Don't know
  
7. In how much company do you have invested?
  - a. One
  - b. Two to three
  - c. More than three
  - d. none

8. Which fund would you like to invest in IPO?
- Personal Fund
  - Loan/ Credit
9. Do you think it is good that NRB has prohibited IPO funding via financial institutions loans?
- Yes
  - No
10. Do you think it is good that it is compulsory for each retail investor to have a bank account and furnish attested copies of citizen certificate?
- Yes
  - No
  - Don't know
11. Do you think that it is good to pricing the IPO at premium rather than the face value of Rs. 100?
- At premium
  - Face value of Rs. 100
  - Don't know
12. In your opinion, which factor influence to the investors for the investment?
- Liquidity
  - Capital gain
  - Dividend
  - Other
13. Would you prefer pro-rata basis or lucky draw for the distribution of shares?
- Pro-rata basis
  - Lucky draw
14. Why most of the companies do not like going in public?
- To keep control
  - Sharing of Profit
  - Obligation to mass shareholders
  - Complexity in management
15. What do you think the reason that the limited number of people invest in the primary market?
- Lack of money
  - Lack of Knowledge
  - Lack of Information
  - others
16. Do you agree Nepalese investors are influence by whim and rumors?
- Very high
  - High
  - Moderate
  - Low

| <b>Knowledge about IPO</b> | <b>No</b>  | <b>%</b>   |
|----------------------------|------------|------------|
| Never Heard                | 4          | 2.66       |
| Seen in Papers & books     | 33         | 22.00      |
| Little Heard               | 35         | 23.33      |
| Yes, Of course             | 78         | 52.00      |
| <b>Total</b>               | <b>150</b> | <b>100</b> |

| <b>Interest (willingness) to invest in IPO</b> | <b>No</b> | <b>%</b>    |
|--|-----------|-------------|
| No risk at all                                 | 11        | 7.33        |
| If had money                                   | 26        | 17.33       |
| Depends in the sector                          | 52        | 34.67       |
| Yes, Even with the loan                        | 61        | 40.66       |
| <b>Total</b>                                   | <b>11</b> | <b>7.33</b> |

| <b>Source of information</b>           | <b>No</b>  | <b>%</b>   |
|--|------------|------------|
| Advertisements                         | 62         | 41.33      |
| Personal Relations(market information) | 47         | 31.33      |
| Broker                                 | 27         | 18.00      |
| Others                                 | 14         | 9.33       |
| <b>Total</b>                           | <b>150</b> | <b>100</b> |

| <b>Investors Preference Sector</b> | <b>No</b>  | <b>%</b>   |
|------------------------------------|------------|------------|
| Banking Sector                     | 99         | 66.00      |
| Finance Company                    | 18         | 12.00      |
| Insurance Company                  | 11         | 7.33       |
| Manufacturing & Processing Company | 9          | 6.00       |
| Trading and Other Company          | 13         | 8.66       |
| <b>Total</b>                       | <b>150</b> | <b>100</b> |

| <b>Investors evaluation while Investing</b> | <b>NO</b>  | <b>%</b>   |
|---|------------|------------|
| Promoters                                   | 33         | 22.00      |
| Company's performance                       | 46         | 30.66      |
| Market Information                          | 71         | 47.34      |
| <b>Total</b>                                | <b>150</b> | <b>100</b> |

| <b>Investment Objective</b> | <b>NO</b>  | <b>%</b>   |
|-----------------------------|------------|------------|
| Quick way to make money     | 93         | 62.00      |
| Long-term Investment        | 45         | 30.00      |
| Don't Know                  | 12         | 8.00       |
| <b>Total</b>                | <b>150</b> | <b>100</b> |

| <b>Number of Companies invested</b> | <b>No</b>  | <b>%</b>   |
|-------------------------------------|------------|------------|
| One                                 | 62         | 41.33      |
| Two to Three                        | 55         | 36.67      |
| More than three                     | 11         | 7.33       |
| None                                | 22         | 14.67      |
| <b>Total</b>                        | <b>150</b> | <b>100</b> |

| <b>Fund Used for the Investment</b> | <b>No</b>  | <b>%</b>   |
|-------------------------------------|------------|------------|
| Personal Fund                       | 92         | 61.33      |
| Loan/Credit                         | 58         | 38.67      |
| <b>Total</b>                        | <b>150</b> | <b>100</b> |

| <b>Funding Via Financial Institution Regulation</b> | <b>No</b>  | <b>%</b>   |
|---|------------|------------|
| Yes   | 102        | 68.00      |
| No  | 48         | 32.00      |
| <b>Total</b>  | <b>150</b> | <b>100</b> |

| <b>SEBON's new regulations</b> | <b>NO</b>  | <b>%</b>   |
|--------------------------------|------------|------------|
| Yes                            | 103        | 68.66      |
| NO                             | 38         | 25.33      |
| Don't Know                     | 9          | 6.00       |
| <b>Total</b>                   | <b>150</b> | <b>100</b> |

| <b>Pricing of IPO</b> | <b>No</b>  | <b>%</b>   |
|-----------------------|------------|------------|
| At Premium            | 27         | 18.00      |
| Face Value            | 102        | 68.00      |
| Don't Know            | 21         | 14.00      |
| <b>Total</b>          | <b>150</b> | <b>100</b> |

| <b>Influence Factors for Investment</b> | <b>No</b>  | <b>%</b>   |
|---|------------|------------|
| Liquidity                               | 26         | 17.33      |
| Capital gain                            | 53         | 35.33      |
| Dividend                                | 35         | 23.33      |
| Others                                  | 36         | 24.00      |
| <b>Total</b>                            | <b>150</b> | <b>100</b> |

| <b>Basis for Distribution</b> | <b>No</b>  | <b>%</b>   |
|-------------------------------|------------|------------|
| Pro-rata basis                | 114        | 76         |
| Lucky draw                    | 36         | 24         |
| <b>Total</b>                  | <b>150</b> | <b>100</b> |

| <b>Reason for not going Public</b> | <b>No</b>  | <b>%</b>   |
|------------------------------------|------------|------------|
| To keep control                    | 43         | 28.67      |
| Sharing of profit                  | 53         | 35.33      |
| Obligation to mass shareholders    | 8          | 5.33       |
| Complexity in management           | 46         | 30.67      |
| <b>Total</b>                       | <b>150</b> | <b>100</b> |

| <b>Reason for limited people investing in primary market</b> | <b>No</b>  | <b>%</b>   |
|--|------------|------------|
| Lack of money  | 32         | 21.33      |
| Lack of knowledge  | 13         | 8.67       |
| Lack o information   | 101        | 67.33      |
| Others   | 4          | 2.67       |
| <b>Total</b>   | <b>150</b> | <b>100</b> |

| <b>Influence by whim and Rumor</b> | <b>No</b>  | <b>%</b>   |
|------------------------------------|------------|------------|
| Very high                          | 34         | 22.67      |
| High                               | 87         | 58.00      |
| Moderate                           | 17         | 11.33      |
| Low                                | 12         | 8.00       |
| <b>Total</b>                       | <b>150</b> | <b>100</b> |

