PROBLEMS AND PROSPECTS OF PRIMARY MARKET IN NEPAL

By: DAVI GUNI

Shanker Dev Campus T.U. Reg. No. 7-1-999-87-98 Campus Roll No.1438/061

A Thesis Submitted to:

Office of the Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirements for the degree of Master of Business Studies (M.B.S.)

Kathmandu, Nepal April, 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

Davi Guni

Entitled:

PROBLEMS AND PROSPECTS OF PRIMARY MARKET IN NEPAL

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This Thesis is forwarded for examination.

Prof. Sneha Lata Kafle Prof. Bisheswor Man Shrestha Prof. Dr. Kamal Deep Dhakal (Supervisor) (Head of research department) (Campus Chief)

Rabindra Bhattarai (Supervisor)

VIVA VOCE SHEET

DAVI GUNI

Entitled:

PROBLEMS AND PROSPECTS OF PRIMARY MARKET IN NEPAL

And found the thesis to be the original work of the student and written according to the 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)

Viva-Voce Committee

	TITE TOCC COMMITTEE
Head of Research Department	:
Member (Thesis Supervisor)	:
Member (Thesis Supervisor)	:
Member (External Expert) :	

DECLARATION

I hereby declare that the worked reported in this thesis entitled Problems and Prospects of Primary Market in Nepal submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University is my original

work	done	in the	form	of partial	fulfillmen	t for the	requirement	of Master's	Degree in	n Business	Studies
(MBS) und	er the	superv	ision of Pı	of. Sneha	Lata Ka	fle and Rabin	dra Bhattarai	of Shanke	er Dev Cam	ipus.

Researcher

Davi Guni

ACKNOWLEDGEMENT

This study is focused on a comparative study of Problems and Prospects of Primary Market in Nepal. I am hopeful that this research will be helpful to the investors, companies and the regulator for the making investment decision, performance evaluation and regulation. Likewise, this research can also be helpful for those who want to make further research on the related topic.

I am very thankful to my research advisor Pro. Sneha Lata Kafle and Rabindra Bhattarai Shanker Dev Campus for their immense guidance and support, without which this work would not have been completed successfully.

I am also thankful to the entire staffs of selected companies and Shanker Dev Campus.

Finally would like to thanks to all of my friends who directly and indirectly help me for preparing the report.

Researcher

TABLE OF CONTENTS

Recommendations	
Viva voice sheet	
Declaration	
Acknowledgement	
CHAPTER – I INTRODUCTION	1
1.1 Background	1
1.2 Statement of the Problem	5
1.3 Objective of the Study	12
1.4 Scope of the Study	13
1.5 Organization of the Study	13
CHAPTER – II LITRETURE REVIEW	15
2.1 Conceptual Framework	14
2.1.1Financial Market	14
2.1.2 Money Market	14
2.1.3 Capital Market	15
2.1.4 Security Market	16
2.1.5 The Primary Market	17
2.1.6 Public Offerings	18
2.1.6.1 Advantages of an IPO	18
2.1.6.2 Disadvantages of an IPO	18
2.1.6.3 Timing of an Public Offering	19
2.1.7 Types of securities offered in the primary market	20
2.1.7.1 Common Equity/ Stock	20
2.1.7.2 Preference Share/ Preferred Stock	21
2.1.7.3 Bond/ Debenture	21
2.1.7.4 Warrants	22
2.1.8 Initial Public Offering (IPO) Manual	22

2.1.8.1 Issuing company	22
2.1.8.2 Merchant Bankers	24
2.1.8.3 Securities Board	27
2.1.8.4 Offices of the Registrar of Companies (ROC)	29
2.1.8.5 Stock Exchange Market	29
2.1.8.6 Financial Institutions	30
2.1.8.7 Nepal Rastra Bank (NRB)	30
2.1.9 Terms Involved in the Process of Initial Public Offerings	30
2.1.9.1 Initial Public Offering (IPO)	31
2.1.9.2 Issue Manager	31
2.1.9.3 Lead Manager	31
2.1.9.4 Underwriting	32
2.1.9.5 Lead Underwriter	32
2.1.9.6 Underwriters or Sub-Underwriters	33
2.1.9.7 Banker to the Issue	33
2.1.9.8 Collection Centers	34.
2.1.9.9 Prospectus	34
2.1.9.10 Budget for the Issue	35
2.1.9.11 Application form	35
2.1.9.12 Bridge Financing	35
2.1.9.13 Memorandum of Understanding	36
2.1.9.14 Issue Commission	37.
2.1.9.15 Underwriting Commission	37
2.1.9.16 Collection Charges	37
2.1.9.17 Refund Charges	37
2.1.9.18 Fix Charges to the Collection Centers – Finance Companies	38
2.1.9.19 Listing in the Nepal Stock Exchange Limited	38
2.1.9.20 Pre Issue & Post Issue	38
2.2 Review of past studies	39
2.2.1 Review of Articles, Books and Journals	39
2.2.2 Review of Thesis	39

2.3 Justification of the Study			
CHADTED III DESEADCH METHODOLOGV	46		
CHAPTER – III RESEARCH METHODOLOGY			
3.1 Introduction	46		
3.2 Research design	46		
3.3 Population and Sample	46		
3.4 Source and collection of data	47		
3.5 Analysis of data	48		
3.6 Statistical tools	48		
3.6.1 Multiple Bar- diagrams and graphs	48		
3.6.2 Pie- diagram	48		
3.6.3 Percentage	49		
CHAPTER-IV PRESENTATION AND ANALYSIS OF DATA	50		
4.1 Introduction	50		
4.2 Types of securities issued	53		
4.3 Year wise issued amount	54.		
4.4 Year wise number of issue	56		
4.5 Over and Under Subscription	58		
4.6 Sector wise issue amount	60		
4.7 Sector wise number of over and under subscription	62		
4.8 Number of issue managed by different issue managers	63		
4.9 Growth of Primary issue in different years	66		
4.10 Number of issue according to types of securities	68		
4.11 Prospects of Nepalese Primary Market	69		
4.12 Impediment and Future Prospects	70		
4.13 Major findings of the study	71		
CHAPTER – V SUMMARY, CONCLUSION AND			
RECOMMENDATIONS			
5.1 Summary	75		

76

5.2 Conclusions

5.3 Recommendations	78
Bibliography	
LIST OF TABLES	
Table 4.1Year wise issue approved from SEBO	51
Table 4.2 Securities wise issue approved	53
Table 4.3 Year wise issued amount	54
Table 4.4 Year wise types of security issue	56
Table 4.1 Number of issue securities year wise	59
Table 4.5 Over and Under Subscription of Securities	59
Table 4.6 Sector wise issued amount	60
Table 4.7 Sector wise over and under subscription	62
Table 4.8 No of issues manage by different issue manager	64
Table 4.9 Growth of primary issue in different years	66
Table 4.10 Types of securities and their number of issue	68
LIST OF FIGURES	
Figure 4.1Yearly no of issue	52
Figure 4.2 Securities wise issue approved	54
Figure 4.3 Year wise issued amount	56
Figure 4.4 Number of issue securities year wise	58
Figure 4.6 Sector wise issued amount	62
Figure 4.8 No of issues manage by different issue manager	65
Figure 4.9 Yearly growth in percentage	67
Figure 4.10 Number of issues according to type of securities	69

ABBREVIATIONS

A.D Anno Domini

B.S Bikram Shambat

B/S Balance Sheet

BOD Board of Director

DCBL Development Credit Bank Limited

DOF Degree Of Freedom

DPS Dividend per Share

EPS Earning per Share

FY Fiscal Year

IPO's Initial Public Offerings

KBL Kumari Babk Limited

LBL Lumbini Bank Limited

Ltd. Limited

MBL Machhapruchhre Bank Limited

MBS Master in Business Studies

NEPSE Nepal Stock Exchange

NIBL Nepal Investment Bank Limited

NIDC Nepal Industrial Development Corporation

NRB Nepal Rastra Bank

PL A/C Profit and Loss Account

Pvt. Ltd. Private Limited

SEBO Security Exchange Board

SMC Securities Marketing Center

T-cal calculated value of t

T-tab tabulated value of t

Vr Value of Right

Vs Versus

WTO World Trade Organization