INITIAL PUBLIC OFFERING PRACTICES IN NEPAL

By BIKASH THAPA MAGAR

Shanker Dev Campus

Campus Roll No.: 738/063

T.U. Regd. No.: 7-2-32-919-2002

2nd Year Exam Symbol No.: 1751

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirement for the degree of Master of Business Studies (MBS)

Kathmandu, Nepal November 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

BIKASH THAPA MAGAR

Entitled:

INITIAL PUBLIC OFFERING PRACTICES IN NEPAL

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

Dr. Shilu Manandhar Bajracharya	Prof. Bishweshor Man Shrestha	Krishna Prasad Acharya
(Thesis Supervisor)	(Head, Research Department)	(Acting Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

Ву

BIKASH THAPA MAGAR

Entitled:

INITIAL PUBLIC OFFERING PRACTICES 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 the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	

DECLARATION

I hereby declare that the work reported in this thesis entitled "Initial Public Offering Practices in Nepal" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Dr. Shilu Manandhar Bajracharya of Shanker Dev Campus, T.U.

.....

Bikash Thapa Magar Shanker Dev Campus

Campus Roll No.: 738/063

T.U. Regd. No.: 7-2-32-919-2002 2nd Year Exam Symbol No.: 1751

ACKNOWLEDGEMENT

I would like to express my deepest gratitude to my thesis supervisor **Dr. Shilu**Manandhar Bajracharya of Shanker Dev Campus for her generous guidance and advancing encouragement during entire period of this work.

I wish like to express especial gratitude to **Prof. Dr. Kamal Deep Dhakal**, (Campus Chief of Shanker Dev Campus) and **Prof. Bishweshor Man Shrestha**, (Head of research Department of Shanker Dev Campus) for their cooperation and inspiration in connection with preparation of this thesis.

I am grateful to all those institutions that have helped me in my study providing me the necessary data, information and suggestions for this research work. I would like to thank the staff members of T.U. Central Library, Shanker Dev Campus library, and members of Central Bureau of Statistics for providing me related materials.

I would like to extend my heartfelt gratitude to my family members for their continued help, encouragement and support. I really appreciate Mrs. Sunita Shrestha, Mr. Raj Kumar Dangal, Mr. Rupak Rana and all my friends who helped me to complete this report in various ways.

Likewise, I would like to express my thanks to Professors and Lecturers of Shanker Dev Campus, all my colleagues who help me directly and indirectly for completion of this thesis.

Bikash Thapa Magar

ABBREVIATIONS

CEO - Chief Executive Officer

CFOs - Chief financial Officers

CRO - Company Registrars Office

GDP - Gross Domestic Product

GNP - Gross National Products

HMG - His Majesty's Government

IPO - Initial Public Offering

NATS - NEPSE Automated Trading System

NEPSE - Nepal Stock Exchange

NIDC - Nepal Industrial Development Corporation

NRB - Nepal Rasra Bank

PE - Private Equity

PP - Page Preferred

REIT - Real State Investment Trust

SDC - Securities Data Companies

SEBON - Securities Board of Nepal

SEC - Securities Exchange Centre

SPSS - Statistical Package for Social Sciences

SRCS - Securities Research Centre and Services

UK - United Kingdom

US - Unite State

USA - United state of America

Vol. - Volume

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No
CHAPTER – I INTRODUCTION	
1.1 Background of the Study	1
1.2 Focus of the Study	5
1.3 Statement of the Problem	6
1.4 Objectives of the Study	7
1.5 Importance of the Study	7
1.6 Limitations of the Study	7
1.7 Organization of the Study	7
CHAPTER- II REVIEW OF LITERAT	URE
2.1 Conceptual Review	10
2.1.1 Concept of IPO	12
2.1.2 Reasons to Go for IPO	13
2.1.3 Advantages and Disadvantages of IPO	14
2.1.4Capital Market and IPO	15
2.1.4.1 IPO, Subset of Primary Market	17
2.1.5 Securities Offered in IPO	20
2.1.5.1 Ordinary Shares	20
2.1.5.2 Preference Shares	21
2.1.5.3 Debenture and Bonds	21

2.1.5.4 Options	22
2.1.5.5 Warrants	23
2.1.5.6 Convertibles	23
2.1.6Theoretical Aspects of IPO	24
2.1.6.1 Underpricing of IPO	24
2.1.6.2 IPO's Long Run Underperformance	26
2.1.7 Historical Background of Capital Market Development in Nepal	27
2.1.8 Institutions Involved in IPOs of Nepal	30
2.1.8.1 Issuing Companies	31
2.1.8.2 Issue Managers	31
2.1.8.3 Merchant Bankers	32
2.1.8.4 Underwriters	33
2.1.8.5 Bankers to the Issue	33
2.1.8.6 Collection Centers	33
2.1.8.7 Others	34
2.1.9 Procedural Aspects of IPOs in Nepal: Legal Aspects and Process	34
2.2 Review of Related Studies	35
2.2.1 Review of International Journals and Dissertations	36
2.2.2Review of Nepalese Journals and Dissertations	48
2.3 Research Gap	52
CHAPTER- III RESEARCH METHODOLOGY	
3.1 Research Design	54
3.2 Population and Sample	55
3.3 Sources and Nature of Data	
3.4 Data Collection Technique	
3.5 Data Processing	56
3.6 Data Analysis Tools	56
3.6.1 Mean	57
3.6.2 Standard Deviation	57
3.6.3 Coefficient of Variation	58

3.6.4 Karl Person's Coefficient of Correlation	
3.6.5 Model for Measuring Underpricing	
3.6.6 Model for Measuring Growth Rates	59
3.7 Limitations of the Methodology	60
CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA	
4.1 Data Presentation and Analysis	61
4.1.1 Amount of Public Issues Offered	61
4.1.2 Number of Public Issues Offered	64
4.1.3 Publicly Issued Companies	
4.1.4 Public Issues from Financial and Nonfinancial Sector	
4.1.5 Instrument-wise Public Issues	
4.1.6 Analysis of Subscription Pattern of Issues	72
4.1.6.1 Sector-wise Analysis of Subscription Pattern	74
4.1.7 Analyzing Underpricing of IPOs in Nepal	77
4.1.7.1 Sector-wise Analysis of Underpricing of IPOs in Nepal	79
4.1.7.2 Year-wise Analysis of Underpricing of IPOs in Nepal	82
4.1.8 IPO Underpricing and Subscription Pattern	
4.1.9 Analysis of Price Change on Offered Price on 1 st , 2 nd and 3 rd	
Day of Trading	87
4.2 Major Findings of the Study	90
CHAPTER- V SUMMARY, CONCLUSIONS	ANI
RECOMMENDATIONS	
5.1 Summary	93
5.2 Conclusions	
5.3 Recommendations	

Bibliography

Appendices

LIST OF TABLES

Table No. Title		Page
No.		
2.1	Name of Issue Managers in Nepal	32
4.1	Amount of Public Issues	62
4.2	Number of Public Issues	64
4.3	Publicly Issued Companies	66
4.4	Public Issues from Financial and Nonfinancial Sector	68
4.5	Calculation of Growth Rate and Correlation between	
	Financial and Nonfinancial Sectors' Issues	69
4.6	Instrument-wise Public Issues	71
4.7	Subscription Pattern of the Issue	93
4.8	Subscription Pattern of the Issue from Different Sector	75
4.9	Underpricing of IPOs in Nepal	78
4.10	Sector-wise Analysis of Underpricing of IPOs in Nepal	80
4.11	Year-wise Analysis of Underpricing of IPOs in Nepal	84
4.12	IPO Underpricing and Subscription Pattern	85
4.13	Price Change on Offered Price on 1 st , 2 nd and 3 rd Day of Trading	88

LIST OF FIGURES

Figu	re No. Title	Page
No.		
4.1	Amount of Public Issues	63
4.2	Number of Public Issues	65
4.3	Publicly Issued Companies	67
4.4	Public Issues from Financial and Nonfinancial Sector	70
4.5	Instrument-wise Public Issues	72