

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The market where securities are traded is known as capital market. The capital market is broadly categorized into two types: primary market and secondary market. The primary capital market denotes the market for the first time sale of securities by an issuer to the public. Securities which are purchased from the primary are traded in the secondary market. Secondary market comprises the organized security exchanges and a specialist facilitates the transaction. Most of capital market transaction occurs in the secondary market. Transactions of the secondary securities occur among the buyers and sellers of the stock. Capital gain and ordinary gain motivates people to buy and sell the securities. Securities in the secondary market are traded in organized Securities Exchange and Over the Counter Market (OTC). Nepal Stock Exchange Ltd. (NEPSE) is only one organized Securities Exchange in Nepal where transaction of secondary market carried out. Capital market plays a vital role in the developing nation's economy. Due to the lack of capital for investment economic growth is low in Nepal. Capital market provides the required capital for the investment. The major function of the stock market is to provide steady and continuous market for the purchase and sell of securities at a competitive price by considering marketability and liquidity.

The major concern of countries of the world has been to accelerate the economic growth and thereby to increase the welfare of their people. Economic growth requires capital investment. This would require fearing up of saving, creating, conducting and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and debt capital through appropriate instrument. The development of corporate culture depends upon a sound financial system, a set of complex and closely

connected or inter-mixed institution, agent's process, markets, claims etc. in an economy.

The worldwide movement towards open and market oriented economic system in the economy. It has led to growth and expansion of banking and financial system too. As a matter development of new financial instrument and improved and diversified financial services are taking place. One of the concrete financial services is merchant banking function. Under merchant banking function financial institutions provide necessary information on the financial instruments to any industry or any concern involved in business, in addition to consultancy services on procedural formation to use the instruments and all necessary management services.

Development of capital market in Nepal is linked with the establishment of commercial banks and long term financing institution like NIDC, market capitalization started in 1994 B.S. with the enactment of the Company Act in 1992 B.S. However, failure of a number of companies within a short time dampened the spirit and for a long period market capitalization took a back seat. Efforts were reinforced in 2033 B.S. with the establishment of Nepal Security Trading Center (NSTC) to make an in road in expanding the base for capitalization and assisting new companies to float easily. The Center also operated in a restricted manner and through the market capitalization process did not take off in a sound manner in the absence of an encouraging environment. Recognizing these short comings, along with the pursuance of liberal economic policies the government through a package of policies including capital market development policies in 2049 B.S. This helped to establish the Stock Exchange Market and the floor for secondary market operation. Within a short period, the market boomed and many new primary issues were also made. In this situation it is useful to analyze the growth trends and assesses the strengths and weakness of the Nepal Stock Exchange Market.

In term of concept, it is very new in Nepal. It was begun with the floatation of shares by Nepal Bank Limited (NBL Bank) and Biratnagar Jute Mills Ltd. (BJM) in 1937 B.S. under Company Act 1936 B.S. No significant attempts has been making in periodic plan to reform the capital market. The establishment of Security Exchange Center (SEC) in 2038 B.S. was the first and most important attempts made by the government to develop the stock market. The SEC served to promote the primary as well as secondary market for government and corporate securities from Fiscal Year 2040/41 B.S. Although, the growth of the Stock Market in high relative to the growth of economy, the shares of corporate sector in the national economy is still very low due to the illegible size of the corporate sectors.

Government policy on capital market reform has greatly contributed to development of primary as well as secondary market. It helps to rise the corporate securities stock prices and the market liquidity for corporate securities was observed immediately after the incorporation of the SEBO and the NEPSE for one year only.

As democracy established in 2007 B.S., the interior government were much busy in advising the measure to recognize the sick industries and gave little attention to initiate and development of stock market until 2033 B.S. A government owned and operated Security Exchange Center was established in 2033 B.S. In 2047 B.S, when democracy was resolved the interim government, in its short period Citizen Investment fund (CIF) has established. The establishment of NIDC Capital Market Ltd. is also another major step to improve financial system in Nepal.

Primary Market

The primary markets are those where new financial assets are issued or generated. They are the media by which demanders and suppliers of today's

funds and the creators and accepters of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfied in the part of the financial needs of both demanders and suppliers of today's fund. At the present concept, it is the market for direct issuance of government securities. The primary market of the country is dominated by the government securities due to the existence of new issue market for individual securities.

The growth of primary market is encouraging since many public limited companies including joint venture commercial banks have been successful to collect capital through flotation of securities to the general investing public (Shrestha, 1998:8). The primary market (new issue market) deals with those securities, which have been made available to the public for the first time.

Securities generally have two stages in their life time. The first stage is when the company initially issues the securities directly from its treasury at a predetermined offering price. This is the primary market offering. It is referred to as the initial public offering (IPO). Investment dealers frequently buy initial offerings on the primary market and resell the securities on the secondary market.

The contribution of primary market to company financing is direct in the sense that it provides additional funds to the issuing companies either for starting a new enterprise for expansion or diversification of the existing one. Before the establishment of security market center, the case of new issue was very few, the issue management activities were under taken by issuing company themselves. The securities board regulates primary market. The Board also prepares guidelines to regulate the primary issues.

In the past few years, the liquidity is very high in Nepalese market. With higher liquidity and very few alternatives available for investment, Nepalese investors

are forced to look at the government bond market and commercial banks and finance companies. Since the commercial banks and finance companies too have not been able to fully utilize their fund, the interest rate for deposit have considerably decreased and the real rate of return after adjusting inflation may go to negative. Therefore the public investors are looking for other alternative, which gives them higher return for their investment. This may be one of the reasons for heavily oversubscribing the public issues offered by corporate bodies.

So, the development of primary market through public issues of securities is equally important to the corporate bodies, investors, securities dealer, securities exchange as well as other who are involved in the securities market. The public issues give an alternative means for the corporate bodies to meet their long term capital requirement. At the same time, the institutional and retail investors also get opportunities to invest their surplus funds in diverse portfolio with a higher return and low level of risk.

With the increase in public issue, the services required in the other sectors of securities business such as issue management, market making, brokerage service, underwriting activities also increase. This will help to benefit the people involved in such type of business. When the public issues increases, the corporate bodies also increase the volume of trading in the stock exchange. So, the development of primary market has significant impact on the development of secondary market.

1.2 Statement of the Problem

There are various types of obstacles existing both from demand and supply side. In this respect, there is the tendency, limitation of ownership and control of the enterprises within the close circle. On the other hand, there were no financial or other incentives for the firms to the public. Furthermore, the

existing strong barriers of socio economic infrastructure and historical reasons made the successful flotation difficult. On the other hand, vast majority of the population are illiterate and ignorant on the modern business principles. It has made difficult in the flotation of the new ventures and selling their shares. Apart from this, there is the absence of secondary market to ensure liquidity to the securities on demand (Mahat, 1981:25-26).

The growing pessimism of the investors over the performance of shares is to be looked from broader company-industry economic framework. The frequent change in government has created political uncertainty regarding the coherent economic development strategy to the extent those entrepreneurs are no sure of what type of business policies is to be perused.

The downfall of NEPSE index is mainly due to the unfair market practices that went undetected for a long period in share market. The unfair share market practices cover wash sales, concerning of the share market, churning, formation of pools and cartels, misuse of insider information and so on. In wash sales, there are simply records of a sale but there is no sale of share at all.

Corporate bodies started offering public issues after the economic liberalization. Investors are investing their fund into stocks without studying the prospectus of the company or even without knowing about the company's area of business and its future business opportunities. This led to over-subscribing of the shares. Investors need sufficient information about the company before investing in the initial public offering. However, there is a general feeling among the investors that the information disclosed through the public announcement and prospectus does not truly reflects the true picture of the future prospects of the company. It is found to be true in some extent, some company's performance after the public issue had been found to be very poor though they showed very optimistic forecasts in the prospectus.

After the policy of economic liberalization adopted by Government of Nepal, one of the prime objectives of the government is to attract foreign investment in various sectors such as hydropower, telecommunication, manufacturing and processing industries. Foreign investors are given attractive incentives through various act and policies. However, they are not allowed to invest in Nepalese capital market.

1.3 Objective of the Study

The main objective of the study is to identify the existing problems and future prospect of Nepalese primary share market. The other objectives of the study are as follows:

-) To assess the current situation of primary market in Nepal.
-) To explore the problems faced in the primary market.
-) To examine the future prospects of the primary market.

1.4 Significance of the Study

Stock market reflects the situation of economy. When stock market is booming the economy is good and market is declining the economy is in recession. It represents also the countries policies towards industries. Policy is formulated in rules and regulation between different Act and Guideline (rules and regulation). This study is needed to find problems and prospects in the future. What policies can be formulated, what regulatory acts are needed and necessity of amendments regarding the rules and regulation to develop it and make the market perfect functioning.

1.5 Limitation of the Study

Following are some of the limitations and hindrances that may occur in course of conducting research.

-) The study is based on data and information available from secondary sources.
-) The reliability of results depends on these data.

) The aim of this study is not to explore all the areas relates to securities market.

1.6 Organization of the Study

This research will be organized and divided into as many as six chapters: The first chapters consist of introduction. The second chapter covers review of literature. The third chapter describes the conceptual framework of the study. The fourth chapter covers research methodology. The fifth chapter presents the data collected from different sources. Based on the data, analysis will be performed using the statistical tools. The sixth chapter describes summary, conclusion and recommendation.

After completion of these five chapters, a list of literature that reviewed earlier is included alphabetically in bibliography.

CHAPTER TWO

REVIEW OF LITERATURE

Kafle (2005) in his article “Primary Market Development in Nepal: Issues and Challenges” has highlighted the primary market scenario, relevant issues in the primary market and envisioned reforms. He believes that empowerment of regulator enables it to move towards standard practices, restructuring processes and opens up market to outside investments, which has become important in the wake of regional co-operational and WTO accession. The recent issuance of Securities Ordinance is important in terms of empowering the regulator and facilitating capital market reform.

Moreover, the planned implementation of the Ordinance will emerge as a challenge.

Paul (1960) in his article “The Review of International Capital Market” 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 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) in his book “Shareholders Democracy and Annual General Meeting Feedback, Portfolio Analysis” has analyzed why the share market is inactive and what problems 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.

Obstacle of growth and prospects of Capital Market is clearly analyzed in “Business manager”. Volume 2, no.3 may 2000 journals (magazine) which is given in some short point:

-) Lack of sufficient education of most of the brokers and the unreliability of a few brokers in financial matters would lead in other countries to immediate disqualification. The importance of transparency is not yet understood at all, partly due to an erratic tax system and an even more erratic tax collection.
-) To issue share is an extremely time consuming and extremely expansive procedure as cases like Taragaon, NIC and now Radisson as well as Nepal Bank of Ceylon prove to be this is the case even though there are easy ways out.
-) To handle the bigger volumes the trading floor will need to be also bigger and floor it inclusive the back office will be fully computerized. Computerized networks will replace open our cry system these networks will make it possible, to extend the trading hours significantly.
-) The transfer of shares will undergo a sea change. The transfer will be mostly paperless, like in Bombay and at the National Stock Exchange in India. The need of approval of boards of directors or transfer of share will be minimized and will be more or less a thing of the past.

-) The board of the stock exchange up to now dominated by government official with little power, will be submitted by a board dominated by broker houses, banks and finance institutions added by government represented and will have full enforcement powers.
-) The actual broker community has in its majority little educational background, little know-how and nearly no international experience. In addition the financial standing is in most of the cases rather weak. The brokers of today will have been transformed in the next 10 years to financially much stronger brokerage houses with longstanding experience. Others, who are no changing, will be gone by then.
-) In depth research of companies and sectors by brokers has not yet started. In ten year leading brokers will have their own in house research; smaller ones will rely on outside research. Rumors, today's bread and butter for brokers will still be influential, but much less than today.
-) Up to now broker have nearly no assets management activities. In future the Assets Management activity will play an important role for successful brokerage houses.
-) The role of shareholders value should be improve while the idea of share holder value is seen up to now only in the banking sectors, the shareholder value idea will be spread in 10 years from now to other sectors as well. But now day's institutional investors are rare at the stock exchange. If the development in other countries like India is any indication, this should change in the next 10 years dramatically. In 10 year from now we believe, that institutional investors like Mutual Funds and Pension Schemes will dominate, while the role of the individual investors will be much lower than it is today's. As far as foreign investors are concerned, we are as yet not much hopeful. Still we do not exclude it, if the rules and regulations are getting more investor friend yard has liquidity topic can be solved.

- J At present available sectors for investment are extremely limited. Similarly, securities nowadays available are ordinary shares, preference shares, one debenture and one mutual fund.
- J The development of debt securities will be very important for the finance of long term investment, where entrepreneurs find it actually hard to the needed long term means from the banking sector- still the market will not be in a position to offer derivatives by then in a bigger extend.

Shrestha (2005) Conducted research on the topic of “Growth and Prospect to Stock Market in Nepal” tries to show the role of the capital market which has been increasing as to mobilize the saving of the nations and canalizes them into productive activities. But, the major problems in the process of development are to increase the level of saving and the channels those saving into investment that leads to economic growth. Capital market is playing a crucial role in the process of growth. In this way, the important of capital market arises as to proper allocation of accumulated savings to various economic, objective of his study were:

- To identify the legal obstacle in the stock market development.
- To study existing transaction system.

Panta (2003) Conducted research on the topic of “Current Status of Share Market in Nepal” the trend of the Nepalese stock market and present status of primary and secondary market as well as problems and prospects of Nepalese stock market. The findings are as follows:

- The development of stock market primarily depends on program and their implementation.
- In Nepal, the overall policy environment has not been conducive to the development of the stock marker therefore it is difficult to

develop more efficient secondary market, trading system for both equity and debt security.

- Restriction on foreign portfolio investment hindered market development.
- NEPSE does not have appropriate policies and memberships are fee structure to attract members outside KTM.
- In Nepal, banks dominate primary market in government debt instruments. OTC trading is not permitted therefore secondary market is totally inactive.
- Lack of necessary provisions in the laws and regulation of the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

The transparency and openness of transaction, quality professional's services, adequate. Corporate financial disclosures and improved legal, regulatory and supervisory frame – are the urgent needs of Nepalese stock market.

Therefore it is important that the basic assumption in any effort for protection investors interest or boosting their confidence or developing the stock market is that business, which should be enabled to operate in an environment that remains conducive to growth and expansion but complete replication of any tailor made, as applied anywhere, may not work because the specifics in Nepalese stock market is different from other developed market.

Mahat (2001) Conducted research on the topic of “Future prospect of NEPSE in capital mobilization” is able to analyzed situation in Nepal where the industrial sector has very little access to private saving. Also be indicating the availability of industrial securities is nearly absent and the

development of financial institutions that link the surplus spending units with the deficit spending ones is in the rudimentary stage.

He further concluded notwithstanding the underdevelopment state of financial institution in the country, growth of invest able funds becoming available recent years. This study also demonstrated the relatively very limited financial contribution of other financial institution to this sector but he does not indicate these factors, which help to uplift the financial contribution to the other sectors like provident fund and NIC etc.

It is acknowledged that a much greater use of resources available in the financial system of the industrial development of the country may not be very smooth and easy. He only specified the growth and potential (measures) of security market, capital market regarding primary and secondary market. It was absent to show the problems face by the NIDC and other industrial as well as financial sectors. He just shows the preliminary and basic problems of industrial sector but not in broad way. His topic was “future prospects of NEPSE in capital mobilization” but according to the topic the sufficient future prospects/measures are not available in this study but can find thin basic context. There is no indication in the relations of primary and secondary market with economic condition of country in his study. But it is able to give the theoretical version of relationship of capital market with economic growth.

The findings on the term nature of sources and uses of funds and the current ratios of various size and industry groups also do not give any ground for complacency. Some industries were found to have financed a large part of the increase in current assets with the long-term sources of funds, while for others the increase in long-term source was hardly

sufficient even to finance the long-term assets formations. He was given high attention to the working capital management in Nepalese industries

Pandey (2001) Conducted research on the topic of "Public response to Primary Issue of Shares in Nepal," with the objective of: identify the problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares & find the reasons of variation. He has summarized the finding as: Public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares. It can be seen that public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector. Major causes for poor response in the period 1995-1998 were; interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Paudel (2002) Conducted research on the topic of "Investing in shares of Commercial Banks in Nepal: An Assessment of Return and Risk Elements," Major finding of his studied 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, was 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. 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. Therefore, 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.

Habibullah (1999), "Financial Markets in Least Development Countries," evidences that in some Asian countries including Nepal economic development reflected in economic growth leads the financial development measured in the ratio of broad money to gross national product (M2/GNP). This implies that economic development has preceded the financial market development in the case of Nepal. But several other studies conducted in other LDCs reveal that the financial development has preceded the economic development. The stock market development measured by market liquidity, market capitalization and total turnover is correlated with current and future economic growth,

capital accumulation, and productivity growth. The efficient money, foreign exchange and capital markets increase investment to the most productive sector of the economy and thereby increase output through saving mobilization. Such markets also price the risk associated with any investment accurately.

Kviback (2001), "Nepal Survey: Issues in Local Bond Market Development". Major finding of his studies were: The financial market in Nepal is relatively undeveloped. The government market is more developed, but prices are not market oriented. The state of development of equity markets indicates how well versed issuers, investors, and intermediaries are in dealing with securities at the primary and secondary market levels. Nepal's overall market is still in its infancy, however. The Nepal Stock Exchange (NEPSE) is a late development, founded only in 1993. It is owned by the government and is a not-for-profit institution.

CHAPTER THREE

CONCEPTUAL FRAMEWORK

3.1 Financial Market

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

3.2 Money Market

Money market activities include primary and secondary market activities in short-term negotiable instruments such as Treasury Bills, Government Bonds, and Certificates of Deposit, Bankers 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.

3.3 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 programs, 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.

Primary markets are absolutely vital to capitalistic economic if they are to function properly, since they serve to channel funds from savers to borrowers.

Furthermore, they provide an important locatives function by channeling the funds to those who can make the best use of them-presumably, the most productive. In fact, the primary function of the capital market is to allocate resources optimally. A securities market with this characteristic is said to be other hand, is one with the lowest possible prices for transactions services.

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.

3.4 Security Market

Security market sets a price for the securities it trades and makes it easy for people to trade them. Securities market facilities the sale and resale of transferable securities. The security market can be defined as a mechanism for bringing together buyer and sellers 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).

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 market 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.

3.5 The Primary Market

In the definition of primary market made above an addition is to be made. That is, depending upon the company offering securities for the first time or in succession, primary market can have public offerings as initial public offerings or the successive public offerings or so on.

3.6 Public Offering

It is the raising of long-term funds for governments or corporation from a fund sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term (debt or equity) on a permanent basis. This not only permits them to broaden their sources of finance beyond the banking system but, because the banking system is usually a short- or medium term floating rate lender, the securities market is often the only means of obtaining large sums of fixed rate, long-term funds.

3.6.1 Advantages of an IPO

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

sense of success and accomplishment that accompanies a successful IPO and becoming a publicly traded company.

3.6.2 Disadvantages of IPO

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

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

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

adopt policies aimed at achieving short-term results rather than long-term goals.

3.6.3 Timing of Public Offering

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

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

of outside directors. Companies which are not willing to make such changes may not be able to attract an underwriter willing to manage the IPO.

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

3.7 Types of Securities Offered in the Primary Market

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

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

3.7.2 Preference Share/ Preferred Stock

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
-) Non- convertible preferred stock.

3.7.3 Corporate Bond/ Debenture

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

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

The different types of debentures are:

-) Secured debentures
-) Unsecured debentures
-) Redeemable debentures
-) Non-redeemable debentures
-) Convertible debentures
-) Non-convertible debentures

3.7.4 Warrants

The warrants give 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 warrants. The warrants are a tradable and negotiable instrument and are also listed on the stock exchanges. It comes in different forms, mostly:

-) Bonds with warrants
-) Preferred stocks with warrants

Besides 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.

3.8 Importance of Primary Market

In the past few years, the liquidity is very high in Nepalese market. With higher liquidity and very few alternatives available for investment, Nepalese investors are forced to look at the government bond market and commercial banks and financial companies. Since the commercial bank and finances companies have not been able to fully utilize their funds the interest rate for deposits have considerably decrease and the real rate of return after adjusting inflation may go to negative. Therefore, the public investors are looking for other alternatives, which give them higher return for their investment. This may be one of the reasons for heavily oversubscribing the public issues offered by corporate bodies.

As discussed above, the primary market in Nepal can be divided into two categories:

-) Primary market for Government debt instruments.
-) Primary market for corporate Stock and debt instruments.

The main aim of our Thesis is to study the primary Market in Nepal, so, in this chapter the various instruments used by the corporate bodies to raise capital from the primary market and the scenario of Nepalese primary market after the establishment of Securities board, i.e. from the fiscal year 5050/051 will be dealt in detail.

3.9 Function and Role of Primary Market

The main function of the New Issue Market is to facilitate the ‘transfer of resource’ from savers to users. Conceptually, however, the New Issue Market should not be conceived as seeing the purpose of raising finance for new capital expenditure. In fact, the facilities of the market are also utilized for selling existing concerns to the public as going concern through conversions of existing propriety enterprises of private companies into public companies.

The origination, however, thoroughly done, will not by itself, guarantee success in an issue. A second specialized service i.e. “underwriting” is required. Underwriting however is only a stop-gap arrangement to guarantee the success of an issue. It depends upon the ultimate analysis of their being acquired by the investing public.

The sale of securities of the ultimate investors is referred to as distribution; it is another specialize job, which can be performed by brokers and dealers in securities who maintain regular and direct contact with the ultimate investors.

Thus, the ability of the New Issue Market to cope with the growing requirements of the expanding corporate sector would depend on these triple-service function desires. Institutional been efficient in their functioning, leaving investors under priced. Efficient financial intermediation involves reduction of the transaction cost or transferring

funds from original source to financial investors. The total cost of intermediation is influenced by financial layering, which makes the individual institution's costs additive in the total cost of intermediating between saver and ultimate borrowers. The aggregate cost of financial intermediation from the origination saver to ultimate investors those in developing countries.

3.10 Relationship between Primary and Secondary Market

The New issue market and stock exchange are interlinked and work in conjunction with each other. It can't be described as two separate markets because of the kind of function perform. Although they differ from each other in the sense that the new issue market with new securities issued for the first time to the public and the stock exchange deals with those securities which have already been issued once to the public.

New issue market and stock exchange is the relative strength and public confidence in joint participation in the sale, purchase and transfer of securities. In Nepal, the new issue market and stock exchange are connected to each other even at the new issue. The usual practice by firm issuing securities is to register themselves on a stock exchange by applying for listing of securities. Further, the securities markets are closely connected to each other because of the sensitive nature of the movements of stock price to a great extent affected by environmental condition such as:

-) Political
-) Economic and social condition
-) Industrial pattern
-) Monetary and fiscal policies of the government.

The long- term and short-term change in these factors have an effect on the changes in prices of stock. The new issue market focused to find out these prices movement and general economic outlook to forecast the climate for investing and the success of new issue floated. Thus, the

prices of share in the new issue market are sensitive to change in the stock market and act and react accordingly.

The primary and secondary markets have as symbiotic relationship. While the primary market creates long term securities, the secondary market provides liquidity through marketability of those instruments. Fresh capital issues are influenced by the level and trend in stock prices at the time of issue. New issue activities in the primary market add depth to the secondary market by enlarging the supply of instrument for trading and investment in the secondary market. Stock prices in turn are influenced by the large size and bunching of new issues.

CHAPTER FOUR

RESEARCH METHODOLOGY

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

4.1 Research Design

This research is based mainly on secondary data and information. Hence, the historical and descriptive research design has been adopted.

4.2 Nature and Sources of Data

This study comprised of all listed companies whose shares were traded in the Nepal Stock Exchange (NEPSE) and Securities Board of Nepal (SEBON). The required data have been collected from the various source but mainly from the annual reports of Securities Board of Nepal covering a period of 2050/051 to 2065/066. The data for the study are collected from the secondary sources. Nepal Stock Exchange Ltd. and Securities Board of Nepal are the main institution, which provides most of the data required for the study. The website of NEPSE Ltd. <http://www.nepalstock.com> and its annual reports are the major sources of secondary data. Besides, these necessary data are also collected from the annual reports of the selected companies and annual reports of Securities Board of Nepal. The website of Securities Board of Nepal is <http://www.sebonp.com>.

4.3 Analysis of Data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principle and sound logic. This study is based the analysis of secondary data with the help of different statistical tool like: Diagrammatic Presentation, Percentage, Tabulation and etc.

4.4 Statistical Tools

To draw the conclusion by analyzing the collected data simple statistical tool like Multiple Bar-Diagram and Graphs, Pie –diagram, Trend Analysis, Percentage etc. are used and tabulation are made to implicit the comparative results.

4.4.1 Multiple Bar-diagrams and Graphs

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

4.4.2 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.

4.4.3 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.

4.4.4 Arithmetic Mean Average

The central value that represents the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrated are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observations that is denoted by \bar{X} .

$$\text{i.e. } \bar{X} = \frac{\sum X}{n}$$

CHAPTER FIVE

DATA PRESENTATION AND ANALYSIS

This chapter deals with the systematic presentation, analysis and interpretation of statistics, evidence and facts to clarify the research works. Analysis is based on the data obtained from secondary sources. The secondary source includes available annual reports of SEBO/S and NEPSE as well as their websites <http://www.sebonp.com> and <http://www.nepalstock.com> respectively.

5.1 Issue Approved From SEBON

As per the provision of the Securities Related Act, 2066 and regulation and guidelines made there under, the issuing company should register the securities in SEBO/N and get issue approval before going to public. After getting approval from SEBO/N 324 companies issued securities from fiscal year 2050/051 to 2065/066. Most of the Commercial bank and finance sector are issued different types of securities to the public. Other remaining sectors are issued securities to the public lowest percentage in comparison to the commercial bank and finance sector. Number of primary issue is increasing day by day. It seems that companies are interested to issue different types of securities for the public. The detail situation of number of issued in different year is presented in Table 5.1.

Table 5.1

Year wise issue approved from SEBO

Fiscal year	Number of issue	% Number of issue
2050/051	16	4.94
2051/052	10	3.10
2052/053	12	3.70
2053/054	5	1.54
2054/055	12	3.70

2055/056	5	1.54
2056/057	6	1.85
2057/058	9	2.76
2058/059	12	3.70
2059/060	18	5.56
2060/061	14	4.32
2061/062	14	4.32
2062/063	29	8.95
2063/064	34	10.49
2064/065	64	19.75
2065/066	64	19.75
Total	324	100.00

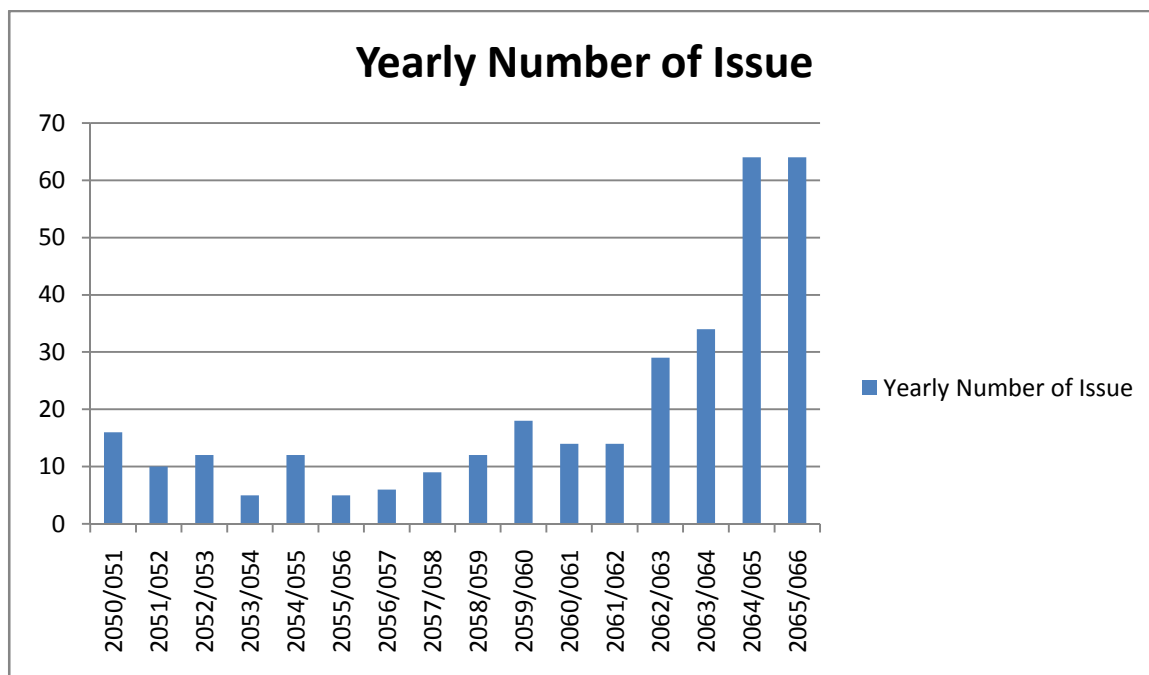
Sources: Annual Report, SEBON, 2050/051 to 2065/066

Table 5.1 shows varied number of issue approved by SEBON during the period. Highest numbers of issues are approved in the fiscal year 2064/065 and 2065/066. Lowest issue approved percentage 1.54 and equal in the fiscal year 2053/054 and 2055/056. Over the 16 year of issue approval the number of issue is fluctuating every year. The total number of issue varies at various time periods.

The number of issue was 16 in the initial fiscal year 2050/051 but at the end of fiscal year 2065/066 the total number of issue approved was reached to the point of 324 issues. The highest number of issued was 64(19.75%) in the fiscal year 2064/065 and 2065/066. The second highest issue was 34 issues (10.49%) in the fiscal year 2063/064. The number of issue was 29 (8.95%) and it was the third highest issue. Similarly, we can describe each and every years fluctuating. We can also describe the above fluctuation in bar-diagrams way.

Figure 5.1

Yearly no of issue



5.2 Types of Securities Issued

Primary market is the place where company issues different types of securities to collect the needed fund. During the fiscal year 2050/051 to 2065/066 total number issued on the basis of different types securities are presented in table 5.2

Table 5.2

Securities wise issue approved

(Rs in Millions)

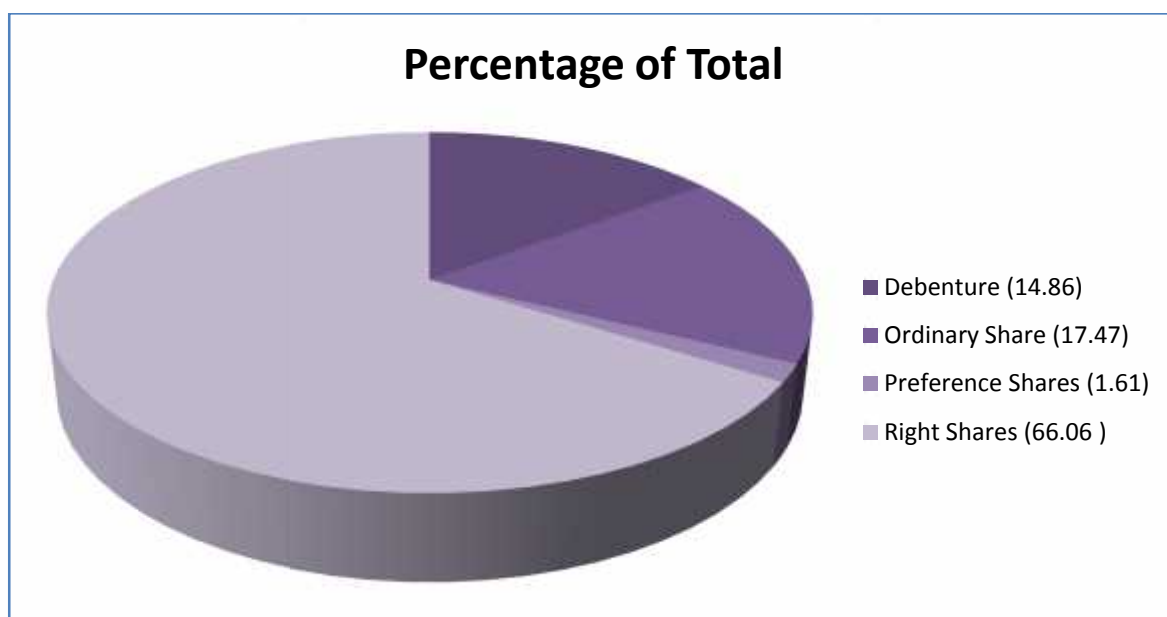
Types of Securities	Total	% of Total
Debenture	5853	14.86
Ordinary Share	6880.83	17.47
Preference share	636.5	1.61
Right share	26019.57	66.06
Total	39389.90	100.00

Sources: Annual Report, SEBON, 2050/051 to 2065/066

Above table 5.2 shows securities wise issue approved by SEBO. During the fiscal year 2050/051 to 2065/066 total issued amount is 39389.90 million. Debenture, Ordinary Share, Preference Share and Right Share are issued Rs. 5853, Rs. 6880.83, Rs. 636.5, and Rs.26019.57 respectively. Out of it highest amount issue was right shares which are approximate 66% of the total amount issue. Ordinary share issue is around 17%, and which is the second highest. Debenture and Preference shares are issued approximately 15% and 2% of total issued amount. It showed that most popular securities issued in Nepalese primary market are right share. This is clearly shown by pie-diagram below.

Figure 5.2

Securities wise issue approved



5.3 Year Wise Issued Amount

During the fiscal year 2050/051 to 2065/066 total amount issued is Rs.39389.90 million. Amount issued in different year are presented in table 5.3.

Table 5.3**Year wise issued amount****(Rs. in millions)**

Fiscal year	Yearly total amount	% in total
2050/051	244.40	0.620
2051/052	173.96	0.441
2052/053	293.74	0.745
2053/054	332.20	0.843
2054/055	462.36	1.17
2055/056	258.00	0.654
2056/057	326.86	0.892
2057/058	410.49	1.04
2058/059	1441.33	3.65
2059/060	556.54	1.41
2060/061	1027.50	2.60
2061/062	1626.82	4.13
2062/063	2443.28	6.20
2063/064	2295.50	5.82
2064/065	10668.20	27.08
2065/066	16828.51	42.72
Total	39389.90	100.00

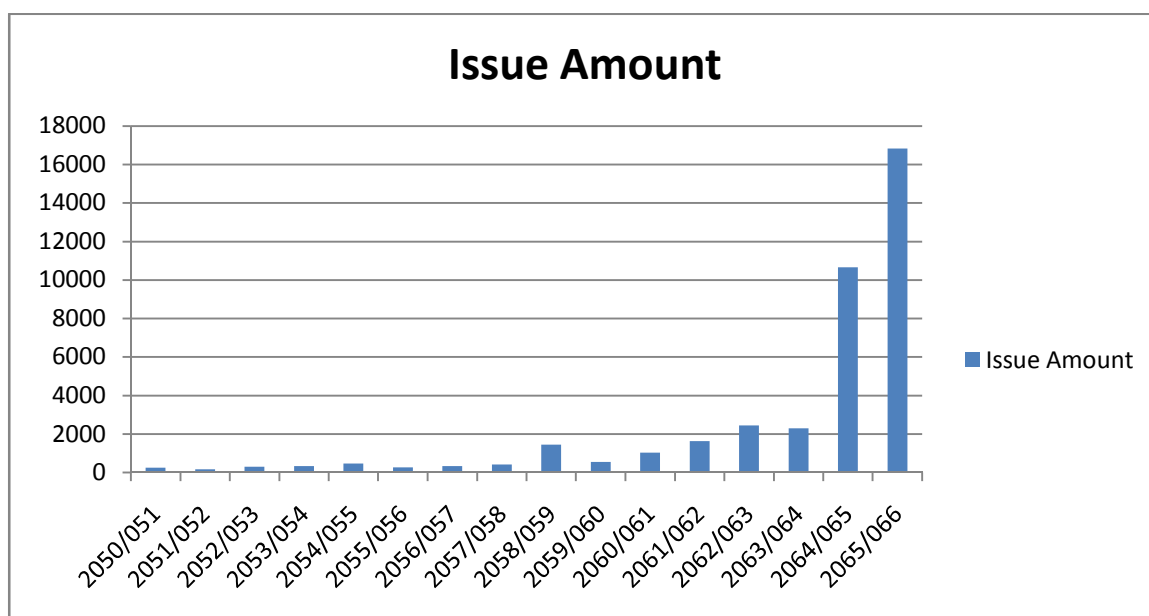
Sources: Annual Report, SEBON, 2050/051 to 2065/066

Table 5.3 shows that the highest amount issue was Rs.16828.51 million in fiscal year 2065/066. It is the 42.42% of the total issued amount. In fiscal year 2064/065 total amount issued is Rs. 10668.51 million which is 27.08% of the total issue amount. The third and fourth highest issue amount is Rs. 2443.28 and Rs. 2295.50 million in the fiscal year 2062/063 and 2063/064 which is 6.20% and 5.82% respectively of the total issued. Least amount issue is Rs. 173.96 million in the fiscal year 2051/052 which is only 0.441%. Second and

third lowest issue is Rs. 244.40 and Rs. 258.00 million respectively in the fiscal year 2050/051 and 2055/056. Similarly total amount issue is Rs. 293.74, Rs. 326.86, Rs.332.20, Rs.410.49, Rs.462.36, Rs.556.54, Rs.1027.50, Rs.1441.33 and Rs.1626.82 million in fiscal year 2052/053, 5056/057, 2053/054, 2057/058, 2054/055, 2059/060, 2060/061, 2058/059 and 2061/062 respectively which represents 0.745%, 0.829%, 0.843%, 1.04%, 1.17%,1.41%,2.605,3.65% and 4.13% of the total amount issued respectively.

Figure 5.3

Year wise issue amount



5.4 Year Wise Number of Issue

Year wise analysis number of securities issued during the period of 5050/051 to 2065/0066 varies differently which is presented in below at table 5.4

Table 5.4

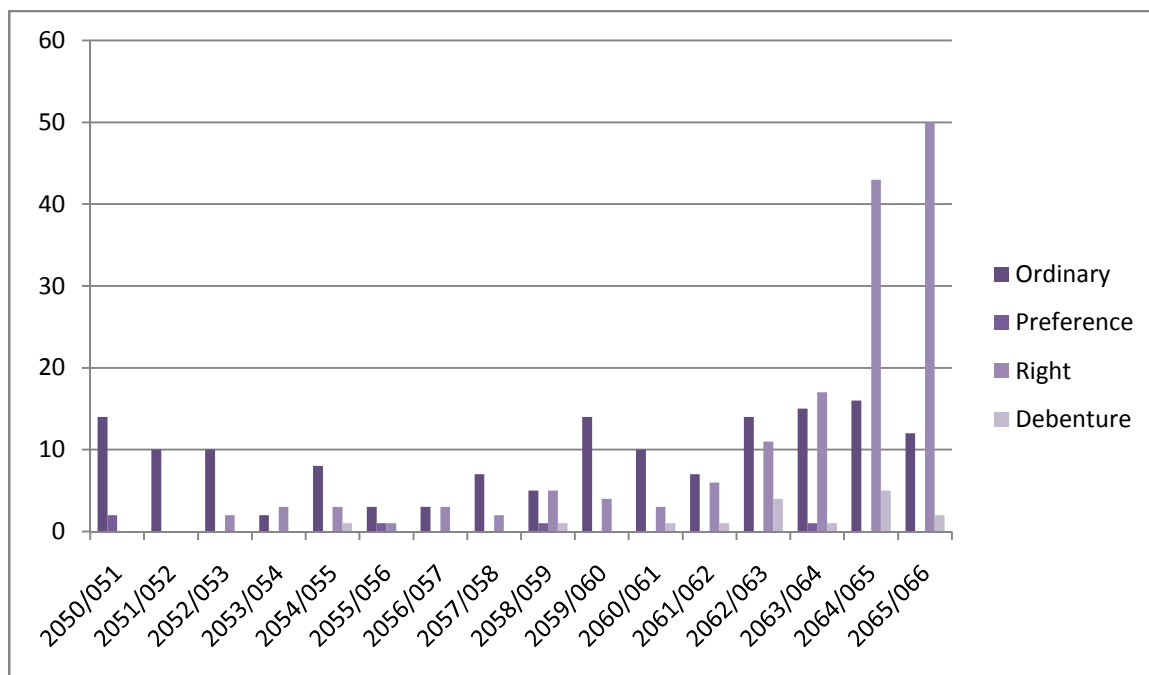
Year wise types of security issue

Fiscal year	Types of securities and number of securities			
	Ordinary	Preference	Right	Debenture
2050/051	14	2	0	0
2051/052	10	0	0	0
2052/053	10	0	2	0
2053/054	2	0	3	0
2054/055	8	0	3	1
2055/056	3	1	1	0
2056/057	3	0	3	0
2057/058	7	0	2	0
2058/059	5	1	5	1
2059/060	14	0	4	0
2060/061	10	0	3	1
2061/062	7	0	6	1
2062/063	14	0	11	4
2063/064	15	1	17	1
2064/065	16	0	43	5
2065/066	12	0	50	2
Total	150	5	153	16

Table 5.4 shows that the year wise number and types of securities issued in the Nepalese capital market. The number of issue was 324 in total. Among this highest issued security is right share which is 153 in total. Secondary highest is ordinary share issue which is 150 issues in total number of issues. Preferred share issue is the lowest one which is 5 in number and 16 is debenture issues among the total number issued which the second lowest is issued in number.

Figure 5.4

Number of issued securities year wise



5.5 Over and Under Subscription

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.

Over subscription of the share are the great problems in the primary market. At present, most of the primary issue being oversubscribed. Almost public issue is done by finance sector and commercial bank sector and this public issue is being over subscription.

Over subscription and under subscription of share issued by different companies are presented in the table 5.5.

Table 5.5**Over and Under Subscription of Securities**

Year	Number of shared issued company	over subscribed co.		under subscribed co.		constant	
		No.	%	No.	%	No.	%
2050/051	14	14	100	0	0	0	0
2051/052	10	7	70	1	10	2	20
2052/053	10	5	50	5	50	0	0
2053/054	2	2	100	0	0	0	0
2054/055	8	5	62.5	2	25	1	12.5
2055/056	3	2	66.67	1	33.33	0	0
2056/057	3	3	100	0	0	0	0
2057/058	7	7	100	0	0	0	0
2058/059	5	4	80	1	20	0	0
2059/060	14	14	100	0	0	0	0
2060/061	10	10	100	0	0	0	0
2061/062	7	6	85.71	1	14.29	0	0
2062/063	14	14	100	0	0	0	0
2063/064	15	15	100	0	0	0	0
2064/065	16	16	100	0	0	0	0
2065/066	12	12	100	0	0	0	0
Total	150	136	90.67	11	7.33	3	2

Sources: Annual Report, SEBON, 2050/051 to 2065/066

Table 5.5 shows that during the period of fiscal year 2050/051 to 2065/066 total companies 150 issued their common stock for public subscription and among them common stock issue of 136 companies 90.67% have been oversubscribed, common stock issue of 11 companies 7.33% have been

undersubscribed and remaining 3 companies 2% issue have been fully subscribed.

5.6 Sector wise Issued Amount

NEPSE has categorized total companies into 8 sectors. The detail of sector wise issue during the period of 2050/051 to 2065/066 situations of the issue of such sectors have been presented in table 5.6.

Table 5.6

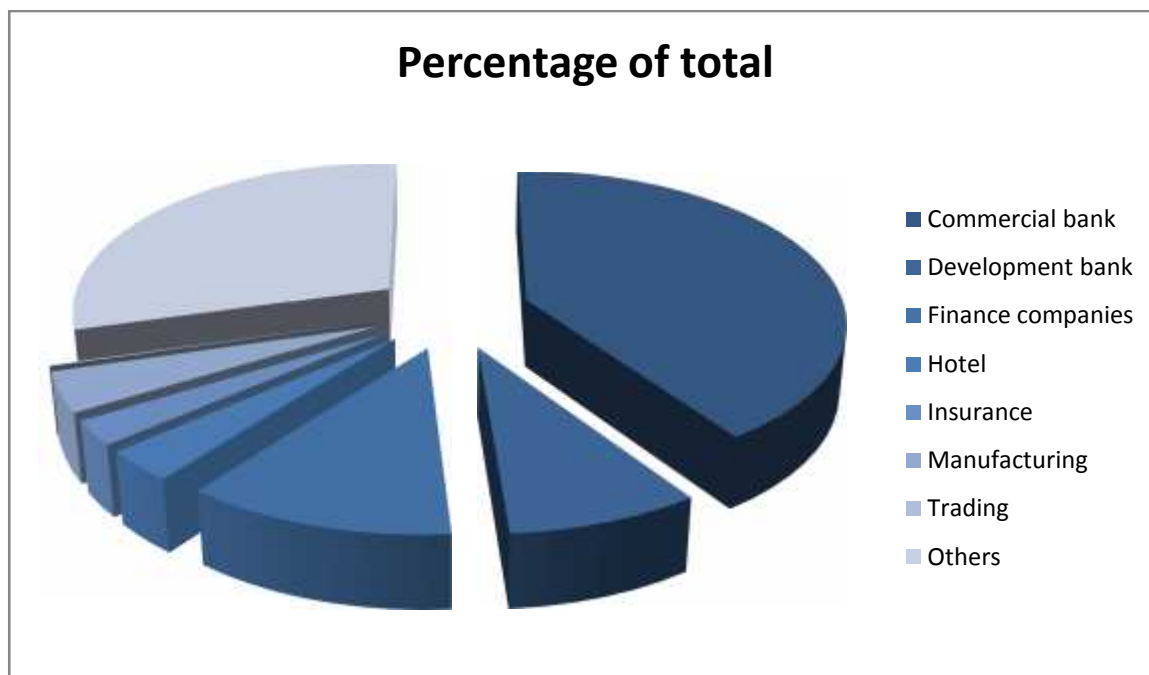
Sector wise issued amount (in million)

Types of sectors	Total amount	% of total
Commercial bank	15956.48	40.51
Development bank	3151.12	8.34
Finance companies	4573.06	11.61
Hotel	1288.02	3.27
Insurance	1004.42	2.55
Manufacturing	1634.64	4.15
Trading	51.21	0.13
Others	11596.12	29.44
Total	39389.90	100.00

During the study period 324 companies have issued different types of securities to the public. The total amount of the issue is Rs.39389.90 million. Among the issues commercial bank sector has issued highest portion to the general public. Total issued amount of the commercial bank is Rs. 15956.48 million which represents 40.51% of the total issue approved. Second highest amount of public issue covered by others sectors and which is Rs. 11596.12 million represented by 29.44% of the issue amount. Similarly, finance company, development bank, manufacturing, hotel, insurance and trading issued amount Rs.4573.06, Rs.3151.12, Rs.1634.64, Rs.1288.02, Rs. 1004.42, Rs.51.21 million which represent 11.61%, 8.34%, 4.15%, 3.27%, 2.55%, 0.13% respectively.

Figure 5.6

Sector wise issued amount



5.7 Growth of Primary Issue in Different Years

During the study period numbers of primary issues are increasing in every year. Primary market trend of the past 16 years shows the progressive steady and public response is positive towards this sector. Growth of primary market is directly related with the lack of opportunities for the investment in other sectors. The liquidity position of our country is also high which would have also led to high public response to the public issue of the different companies. Most of the companies attract the investor by issuing the different type of securities. Companies are also interested to go to the public. Investors are more attracted for the investment of the primary issue because of the higher return and low risk in comparison to the other investment. So, primary issues are increased in every year in all sectors. Growth of primary issue is almost positive in past history of Nepalese capital market. Growth of primary issues in different year is shown in table 4.7.

Table 5.7

Growth of primary issue in different years

Fiscal year	Total (Rs. in millions)	Yearly growth rate
2050/051	224.40	0
2051/052	173.96	-29
2052/053	293.74	69
2053/054	332.20	13
2054/055	462.36	39
2055/056	258.00	-44
2056/057	326.86	27
2057/058	410.49	26
2058/059	1441.33	251
2059/060	556.54	-61
2060/061	1027.50	85
2061/062	1626.82	58
2062/063	2443.28	50
2063/064	2295.50	-6
2064/065	10668.20	365
2065/066	16828.51	57
Total	39389.90	900

To calculate the average of yearly growth rate:

Now,

Total of the yearly growth rate =900

Number of the years =16

By using the formula of arithmetic mean,

$$\bar{X} = \frac{\sum X}{N} = 900/16 = 56.26$$

So, average of yearly growth rate is 56.26

Above table 5.7 shows that the growth rate of primary issues in different years. Highest percentage growth of primary issue securities was 365 percentages in the fiscal year 2064/065. Second highest growth of primary issue securities was 251 percentages in the fiscal year 2058/059. Third, fourth, fifth highest percentage growth of primary issue was 85 percentage, 69 percentage and 58 percentage in the fiscal year 2060/061, 2052/053, and 2061/062 respectively. Average percentage growth of primary issue was 56.26 percentages during the period.

5.8 Number of Issues According to Types of Securities

There are many securities available in the stock market for the investment. In Nepalese capital market limited types of securities are issued for the public or securities available for the investment are limited. Types of securities issued and their number by different companies in primary market are shown in table 5.8.

Table 5.8

Types of securities and their number of issue

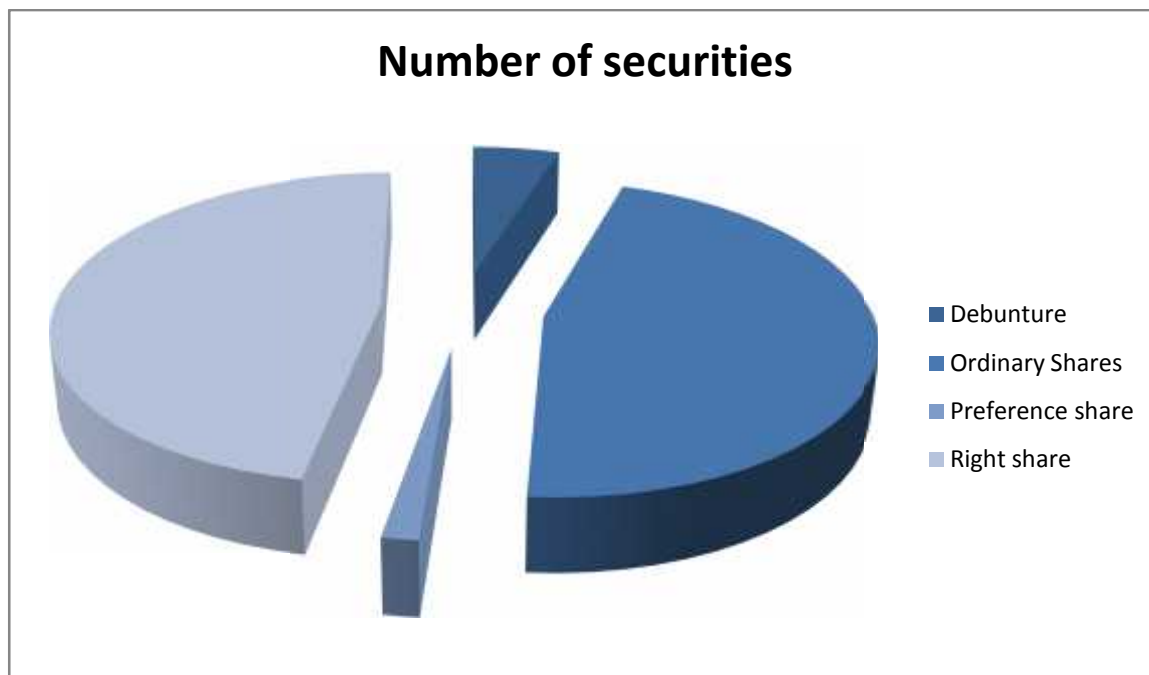
Types of securities	Number of securities
Debenture	16
Ordinary share	150
Preference share	5
Right share	153

Table 5.8 shows different types of securities issued in Nepalese capital market. Most of the companies are seen to issue right and ordinary shares. 153 companies issued right share to the public in Nepalese capital market. Ordinary share is another popular security for the companies to collect additional fund. 150 companies issued ordinary share until the fiscal year 2065/066. Debenture and preference shares are seen very less attractive securities in the Nepalese capital market. Only 16 companies have issued debentures and 5 preference

shares. The past experience shows that investors are not interested to invest in the debenture and preference share. Probably it is because of less return as compared to common stock and lack of awareness.

Figure 5.8

Number of issues according to type of securities



5.9 Issue of Corporate Bonds in Nepal

In Nepalese context, the corporate bodies have issued various kinds of securities to raise capital. Corporate Bonds or Debenture have been used by few companies and banks to meet their long-term fund requirements. This is clearly shown the following table.

Table 5.9

Year	Issuing Company	Issued Amount (In millions)	Date of Issue	Subscription (%)	Issue Manager
2054/55	Shreeram Sugar Mills Ltd.	93.00	2054/08/05	18.42	NCML
2058/59	Himalayan Bank Ltd.	360.00	2059/03/04	-	NMB
2060/61	Nepal Investment Bank Ltd	300.00	2060/07/17	102.28	AFC
2061/62	Everest Bank Ltd	300.00	2062/01/07	100.00	CIT
2062/63	Bank of Kathmandu Ltd.	200.00	2062/06/06	133.31	NMB

2062/63	Nepal Investment Bank Ltd	250.00	2063/02/16	100.00	AFC
2062/63	N.I.C Bank Ltd.	200.00	2063/02/29	100.00	AFC
2062/63	Nepal SBI Bank Ltd	200.00	2063/03/20	101.20	CIT
2063/64	Nepal Investment Bank Ltd	250.00	2064/02/29	100.00	AFC
2064/65	Nepal Electricity Corpora..	1500.00	2064/11/02	1.11	NMB
2064/65	Kumari Bank Ltd.	400.00	2065/02/02	1.01	NMB
2064/65	Himalayan Bank Ltd.	500.00	2065/03/08	1.00	ACE
2064/65	Nepal Investment Bank Ltd	250.00	2065/03/12	1.00	ACE
2064/65	Nabil Bank Ltd.	300.00	2065/03/29	1.00	NCML
2065/66	Siddhartha Bank Ltd.	400.00	2065/06/19	-	ACE
2065/66	Laxmi Bank Ltd.	350.00	2065/06/26	-	NMB

Sources: Annual Report, SEBON, 2050/051 to 2065/066

The first issue of corporate bond in Nepal was done about two decades ago. In the Securities Board only 16 companies issued the corporate bond but it plays important role to establish the capital market.

5.10 Prospects of Nepalese Primary Market

At present, individual Nepalese savers have extremely limited opportunities for investing their long-term saving. To secure maximum returns, these investors should have opportunity to invest into long-term corporate equities rather than depositing on the bank. However, because of the present state of the stock market, both individuals and institutions are putting far more of their saving into bank deposits and fixed interests government securities that they would if the market were working properly. Thus, long term saving that should be invested in the stock market are going into short-term instruments.

After, the adaptations of liberal economic policy by Government of Nepal, 324 numbers of companies are established in the past 16 years. These companies cover a broad range of industries including airlines, hydropower, water supply,

gas, pharmaceuticals, paper, food and beverages, cement, iron and steel, textiles, banking, insurance, finance services, hotels and resorts. Though, still there is enough liquidity in the market at present, investors are willing to invest in the common stocks of public companies but the corporate bodies are not coming ahead to collect fund from the primary market through public issues. They are obtains loan from banking and financial institutions for their long-term capital requirement.

The retail investors are in search for long-term instrument with higher return for their savings. The number of insurance companies is growing and government is planning to establish a pension fund for its employees. Provident fund, pension fund as well as insurance companies would prefer to invest in the equity of profitable companies through IPO rather than depositing on the bank. Entrepreneurs, who are establishing new business in response to liberalizations, will be constrained in realizing their capital gains if they cannot sell part of their original equity in successful company after some years of growth. Thus, there exists opportunities for the investors to invest in the stock of corporate bodies and the corporate bodies have the opportunities of collecting required capital through the issue of stock through primary market. However, there are a lot of things to be done to transform the present state of primary market in to a healthy and efficient one where corporate bodies can easily raise funds according to their requirements and investors can invest their savings into a long-term instrument with higher return.

5.11 Impediment and Future Prospects

The capital market needs laws that make the procedures for public issue simple, transparent and unambiguous and defines clear roles and responsibilities of regulatory bodies. Lack of such laws is the main hindrance to the development of capital market. Lacks of investor education, lack of professionalism in the part of the companies involved in securities business and

inadequate attention to enhance the institutional capabilities are some of the factors that are also contributing to the impediments to primary stock market development

Although there are many hurdles, the availability of enough liquidity in the market and the government's liberal economic policy, which is encouraging foreign as well as domestic investors to invest in various sectors such as hydropower, telecommunication, and infrastructure projects, is certainly going to have high prospects for primary market in Nepal.

5.12 Major Findings of the Study

The major findings of the study are described as follows

-) The total number of issue of the Nepalese capital market is increasing day by day. The number of issue was 16 in the fiscal year 2050/051 but at the end of the fiscal year 2065/066 it has reached 324 issues. The highest number of issue is 64 (19.75%) in the last two fiscal year 2064/065 and 2065/066. The second highest issue is 34(10.49%) in the fiscal year 2063/064. The fiscal year 2053/054 and 2055/056 are indicated the lowest issue year in the history of Nepalese capital market. In these both years the number of issue was only 5.
-) Total issued amount is Rs. 39389.90 million during the period. Debenture, ordinary shares, preference shares and right shares are issued Rs.5853, Rs.6880.83, Rs.636.50 and Rs.26019.57 respectively.
-) The highest amount issue is right shares which is approximately 66% of the total issue amount. Ordinary issue is 17.47% of total issue amount which is the second highest. Debentures and preferences share are issued approximately 15% and 2% respectively of total issue amount. It shows that common security issue in Nepalese primary market is right share.

-) The highest amount issue of Rs.16828.51 million in the fiscal year 2065/066. It is the 42.72% of the total issue amount. In the fiscal year 2064/065 total amount issue is Rs.10668.20 million which is 27.08 of the total issue amount, which is the second highest amount. Lowest issue amount is Rs. 173.96 million in the fiscal year 2051/052 which is 0.441% of the total issue amount.
-) Commercial bank has issued highest amount issue as comparison to other sectors. Their issue amount is Rs. 15956.48 million which represent 40.51% of the total issue amount. Finance companies have issued Rs.4573.06 million i.e. 11.61% of the total issue amount, Manufacturing sector issues Rs.1634.64 million which is 4.15% of the total issue amount. Development bank and other sector issues Rs. 3151.12 and Rs.11596.12 million. It covers 8.34% and 29.44% respectively of the total issue amount. Insurance companies issues Rs.1004.42 million i.e.2.55% of total amount issue. Hotel and trading sectors issues Rs.1288.02 and 51.21 million to the public which is 3.27% and 0.13% of the total issued amount.
-) Highest percentage growth of primary issues is 365 percentages in the fiscal year 2064/065. Second highest growth of primary issue is 251 percentages in the fiscal year 2058/059. Third, fourth and fifth highest percentage growth of primary issue is 85 percentage, 69 percentage and 58 percentage in the fiscal year 2060/061, 2052/053 and 2061/062 respectively. Average percentage growth of primary issue is approximately 56 percentages during the study period.
-) Total 324 companies issued different type of securities to the public. Among them right shares and ordinary shares issued 153 and 150 companies until the fiscal year 2065/066. Similarly, debenture and preference share are issued very less in the Nepalese capital market. Only 16 companies issued debenture and 5 company's issues preference shares to the public.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 Summary

Primary market is one of the major components of capital market. Capital market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Capital market provides an effective way of raising money for commercial enterprises and in the meantime provides an investment opportunity for individual and institutions. Thus, primary markets have both theoretical and practical prospective. This study mainly aims to examine the primary market's problem and prospects in Nepal. The specific objectives of this study were:

-) To assess the current situation of primary market in Nepal.
-) To explore the problems faced in the primary market.
-) To examine the future prospects of the primary market.

Although, some studies regarding the different issues of primary market are already conducted in Nepal, the study based on the primary market its problem and prospects in Nepal is probably the first in Nepal. This study is based on the secondary data with large sample of primary issue companies from different sectors. This study covers almost all sectors/companies (i.e. banking sector, finance sector, development bank sector, manufacturing and processing sector, hotel sector, insurance sector, trading sector and other sector) issuing securities to the public. For the purpose of this study, the necessary secondary data has been collected since 2050/051 to 2065/066 with respects to annual reports, other bulletin of NEPSE and its website: <http://www.nepalstock.com> , the annual reports of SEBO/N and their website: <http://www.senonp.com> and the annual reports of specific companies. This study is based on time series data analysis of 324 observations. The time series data are used to trace out the current situation of primary market problem in Nepal. This study used different

tools to accomplish its objective. The multiple bar diagram, pie-chart were used to analyze the picture of primary market condition in Nepal.

6.2 Conclusion

Based on the findings of the study, it is being concluded that companies have issued basically four types of securities in Nepalese capital market. (That is ordinary shares, preference shares, and debenture and right shares). The total number of issue of the Nepalese capital market is increasing day by day. The number of issues was 16 in the fiscal year 2050/051 but at the end of fiscal year 2065/066 total number of issued is reached to 324 issues. The highest number of issue are 64(19.75%) in the fiscal year 2064/065 and 2065/066 each. Lowest issues during the period are 5(1.54%) in the fiscal year 2053/054 and 2055/056 each. Total issue amount is Rs.39389.90 million during the study period. Ordinary share, right share, debenture and preference share are issued Rs.6880.83, Rs.26019.57, Rs.5853.00, Rs.636.50 million respectively.

The highest amount issue is right shares which approximately 66% of the total issue amount. Ordinary issue is 17.47% of the total issue amount which is the second highest. Debenture and preference shares are issue approximately 15% and 2% of total issue amount. It shows that most popular and common security issue in Nepalese primary market is right shares.

The total amount issue by during the study period is Rs.39389.90 million. Commercial bank issues Rs.15956.48 million which is the 40.51 percentage of the total issued amount. Finance companies are issues Rs.4573.06 million i.e. 11.61 percentages of the total issued amount. Manufacturing sector issues Rs.1634.64 million i.e.4.15 percentage of the total issue amount. Development banks and other sectors issues are Rs.3151.12 and Rs.11596.12 million. It covers 8.34 percentages and 29.44 percentage of the issued amount. Insurance companies issue is Rs.1004.42 million i.e.2.55 percentage of total issued

amount. Hotel and trading sectors issue are Rs.1288.02 and Rs.51.21 million to the public which is the 3.27 percentage and 0.13 percentage of the total issue amount.

The highest amount issue of Rs.16828.51 million in the fiscal year 2065/066. It is the 42.72 percentage of the total issue amount. Lowest amount issue is Rs.173.96 million in the fiscal year 2051/052 which is 0.441 percentage of the total issue amount. Highest percentage growth of primary issues is 3.65 times in the fiscal year 2064/065. Average percentage growth of primary issue is 56 percentages during the study period.

Likewise, the situation of sector wise issue also indicate that all shared issued of banking sector, insurance sector, hotel sector, development sector and other sector are fully over-subscribed while in the case of finance sector and manufacturing sector and processing sector companies majority of such issues were also over-subscribed by many times. These all indicates the problem and prospects of primary market in Nepalese capital market.

5.3 Recommendation

To develop and expand the Nepalese primary market more effective and efficient the following recommendations have been recommended:

-) The government should make clear and specific plans and policies to expand the capital market and should implement these.
-) The Securities Board Nepal and other concern authorities should conduct public awareness and investors education programs to increase the level of investors' awareness.
-) Large and ineffective government corporations should be privatized in order to develop the Nepalese stock market through the wide spread distribution of shares to public investors.
-) The information and financial statements of the companies should be published properly and timely.
-) The market intermediaries should be educated, trained and professionalized.
-) The government should allow foreign investors to invest in Nepalese capital market.
-) Encourage active participation of other sectors of the economy besides banks, finance companies and insurance through the enforcement of good corporate governance. Investment in corporate sectors should be encouraged.
-) Encourage to the issue of debenture, preference share and other instruments to the public because most of the companies issues common stock for the public.
-) To developed the Central Depository System to establish the stable security market.
-) To developed the Credit Rating System.
-) The market should be open to the NRN members.
-) The Primary Market should be open to Institution Foreign Investors.

BIBLIOGRAPHY

BOOKS AND JOURNALS

- Brigham, Engene F. (1982). Financial management theory and practice. New York: The Dryden Press.
- Brigham Eugene F., and Louis C. Gapenski (1995). Intermediate financial management. New York: The Dryden Press.
- Cheney, John M., and Edward A. Moses (1997). Fundamentals of investments. San Francisco: West Publishing Company.
- Charles P. Jones (1988). Investment: Analysis and Management. New York: Johnwiley and Sons.
- Cottle, Sidney, Roger F. Murray, and Frank E. Black (1989). Security analysis. London: McGraw-Hill International Editions.
- Dowrie, George W, & Fuller, Rauglas R (1995). Investment. New York: John Wiely & Sons.
- Edward R. D., and John Magee (1958). Technical analysis of stock trends. New York: Springfield Mass.
- Francis J. C. (1992). Investment analysis and management. London: McGraw-Hill Intonation Editions, Finance Series.
- Fisher, D.E. and R.J. Jordon (1992). Security analysis and portfolio management. New Delhi: Prentice Hall of India (p) Ltd.
- Gitman, L. J. (1994). Principles of managerial finance. New York: Harper Collins College Publishers.
- Gupta, S. C. (1999). Fundamental of statistics. New Delhi: Himalayan Publishing House.
- Gupta, S.P. (1991). Statistical methods. New Delhi: Sultan Chand and Sons Publications.
- H.K.Wolff and P.R.Pant (2005). Social Science Research and Thesis Writing.Kathmandu:Buddha Academic Publishers.
- Kothari, C. R. (1994). Quantitative techniques. New Delhi: Vikas Publishing House Pvt. Ltd.
- (1990). Research methodology and techniques. New Delhi: Wishwa Prakashan.
- Kafle Deepak Raj.(2005) Primary Market Development in Nepal: Issues and Challenges, Kathmandu:Security Board of Nepal, Journal,vol.2,October.
- Mahat, R. S. (1981). Capital market, financial flows and industrial finance in Nepal, Lalitpur: Sajha Prakashan.
- NEPSE. Annual Reports. Various Volumes, Kathmandu.
- Pandey, I.M. (1992). Financial management. New Delhi: Vikas Publishing House Pvt.Ltd.
- Pike, Richaard and Bill Neale (1998). Corporate finance and investment: decision and strategies. New Delhi: Prentice Hall of India.
- Pradhan, S. (1992). Basic of financial management. Kathmandu: Educational Enterprises (P) Ltd.
- R.R.Paul.(2008)Monetary Economics.New Delhi: Kalyani Publishers
- Paul(1960) The Review of International Capital Market: The American Economic Review.
- Sharpe, William F., Gordon J, Alexander, and Jeffery V. Bailey (2000). Investments. New Delhi: Prentice Hall of India Private Limited.
- Shim J.K. and Siegel, Encyclopedic Disctionary of Account and Finance, (New York: Prentice Hall, 1989).
- Shrestha, Sunity and Dhurba Prasad Silwal, Statistical Methods in Management_(Kathmandu: Taleju Prakashan,2057).
- Shrestha, Manohar Krishna, Financial Management, Theory and Practice, (Kathmandu: Curriculam Development Centre,1980).
- (1985). Finance companies in Nepal. Kathmandu: Investment Management Training & Research Centre.
- (1992). Shareholders democracy and annual general meeting feedback, portfolios analysis. Kathmandu: Nepal Publications.
- Solomon, Ezra (1963). The theory of financial management. Colombo: Colombia University Press
- SEBON. Annual Reports. Various Volumes,Kathmandu
- Van Horne, James C. (2000). Financial management and policy. New Delhi: Prentice Hall of India Pvt. Ltd.
- Weston, J. Fred and Eugene E. Brigham (1996). Essential of managerial finance. New York: The Dryden Press.

Weston, J. Fred, and Thomas E. Copeland (1992). Managerial finance. New York: The Dryden Press.

THESIS

- Aryal M. (1995) The general behaviour of stock market. Master's thesis, Central Department of Management, Tribhuvan University.
- Baral K. J. (1999) Securities market in Nepal. Master's thesis, Central Department of Management, Tribhuvan University.
- Bhhatta, B. (1997) Dynamics of stock market in Nepal. Master's thesis, Central Department of Management, Tribhuvan University.
- Mahat, B.(2001) Future prospects of NEPSE in capital mobilization.Master's thesis, Central Department of Economics,Tribhuvan University.
- Om Prakash Khanal(2008) A Study on the trend and development of security market in Nepal.Master's thesis Central Department of Economics,Tribhuvan University.
- Pant R. (2000) Stock Exchange: Current status share market in Nepal. Master's thesis, Central Department of Management, Tribhuvan University.
- Pathak, T. R. (2001) Protection of the investors in the capital market of Nepal. Master's thesis, Central Department of Management, Tribhuvan University.
- Pandey, S (2001) Public response to primary issue of shares in Nepal. . Master's thesis, Central Department of Management, Tribhuvan University.
- Paudel, R(2002) Investing in shares of Commercial Banks in Nepal. Master's Thesis, Shankar Dev Campus Tribuvan University.
- Habibullah, (1999) Financial Markets in least Development Countries. Master's Thesis, Central Department of Management, Tribhuvan University.
- Kviback (2001), Nepal survey: Issues in local bond market development. Master's Thesis, Central Department of Management, Tribhuvan University.
- Subedi, B. (2003) A study on investors awareness in the securities market in the Nepal. .Master's thesis, Shanker Dev Campus Tribhuvan University.
- Shrestha Shreenu(2007) Growth of Security Market in Nepal. Master's Thesis, Shankar Dev Campus Tribuvan University.

WEBSITES

1. Official website of NIDC Capital Markets, <<http://www.ncml.com.np>>
2. Official website of NEPSE, <<http://www.nepalstock.com>>
3. Official website of NMB, <<http://www.nmb.com.np>>
4. Official website of NRB, <<http://www.nrb.org.np>>
5. Official website of SEBO, <<http://www.sebonp.com>>
6. Search engine, <<http://www.google.com>>