

CHAPTER - I

INTRODUCTION

1.1 General Backgrounds The Study

The primary goal of any country, like Nepal, is rapid economic development to promote the welfare of the people and the nation as well. Nepal is trying to embark upon the path of economic development by economic growth rate and developing the sector of economy. So, the process of economic development depends upon capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formulation has been the principal variable in setting the overall pace of economic. In this regard, the network of well organized financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In this way, financial institutions provide savers highly liquid divisible assets at a lower risk while the investor receives a large pool of resources.

Financial sector is often regarded as the lifeblood of national economy. Almost every economic activities pivot around varying degree of financial investment. The financial system of the country plays vital role on transferring resources from net savers to the deficit units of the economy. The development of the financial system is important in economic growth and on efficient financial system fosters the efficient mobilization of domestic saving and allocates resources to their optimum uses. Financial system contributes to greater accumulation of productive capital by increased mobilization of financial resources and sustained high investment levels.

A developed financial system is a hallmark of any free enterprises or mixed economy. The markets, instruments and institutions that comprise this system facilitate the efficient production of goods and services and thereby contributing the society's well being. The financial systems or markets perform this function by channeling the nation's saving into

best uses. It does this by bringing together those who have surplus funds to lend and those who wish to borrow to finance their expenditure.

Financial institutions and financial markets compete as ways of providing borrower with access to capital and providing liquidity to investors. This financial market is broadly classified into i.e. Money Market and Capital Market. Money market refers to a market where debts securities of less than one-year maturity are traded whereas capital market is the market for long-term debt and corporate stocks. The main function of money market is to provide short-term funds to deficit spender while capital market avails funds for long-term investment in fixed capital. The Money Market is the center of dealing mainly of short term character in monetary assets; it meets the short term requirement of borrowers and provides liquidity or cash to the lenders. It is the place where short term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers again comprising institutions and individuals and also the Government itself.

A capital market is an organized market for effective and efficient mobilization of money capital or invests able funds from the numerous investing classes (individuals and institutional enterprises) to finance their business either in the private sector or in the public sector of our economy.

“Capital market is further divided into two categories- securities market and non-securities market. Securities market refers to that market where financial assets such as share, debentures, bonds etc. are traded in accordance with prescribed rules and regulations. Securities market is also divisible into primary and secondary market. The primary market facilitates to raise funds from the market for first time and is often known as “new issue market” secondary market, which is popularly known as ‘ stock exchange’ is concerned with the trading of already issued securities. And non- securities market represents the market where financial transactions are carried out between lender and borrower for a longer period without issuing any securities in the form of shares, debentures in the market” (Shrestha, 2002:16).

According to Peter S. Rose “the capital market is designed to finance long- term investments; financial instruments traded in the capital market have original maturities of more than one year.”

“Nepal is a developing country. For the balanced development of the country, it has been adopting planned economic development, which requires a steady supply of medium to long- term capital funds. Supply of capital markets are the institutions, which are engaged in mobilization of idle saving in productive opportunity. Development and expansion of capital market is essential for the rapid economic development by mobilizing the long term capital” (Ojha, 2000:86).

Capital is the lifeblood of any organization. Capital structure is the combination or composition of the long- term debt, preferred store and common stock. The existence of an organized capital market plays an important role in collecting and mobilizing the inventible resources to fulfill long-term fund requirement of corporate sector. The role of capital market is significant when there is a high demand of funds. In this situation, merchant bankers bridge the huge gap between demand for funds by the institutions and supply of untapped public savings. They mobilize funds from savers to investors through various channels assuring promising return on investments.

Thus the development of Merchant banking service is crucial for the growth of capital market. The development of merchant banking services is closely linked with worldwide move towards open and market oriented economic system. “With the development of liberalized and market oriented economy, the banking and financial system is also expanding gradually resulting with the introduction innovative financial service and instruments. As a result, the financial system has been experiencing and there is through competition among the players of the financial system. Thus, Merchant Banking activities” include all activities where merchant banker provides services for those professional activities such as information of different financial resources required procedure to achieve these resources or any other required managerial work for such activities”(Aryal, 2060:63).

1.2 History of Merchant Banking

The term 'Merchant Banking' was originated in the 18th and early 19th centuries in the United Kingdom when trade between countries was financed by bills of exchange drawn on the principal merchant houses. With the increase in international trade, the established merchants started the practice in lending their names to the new comers and accepting the bills of exchange on their behalf. They would charge a commission for the purpose and thus acceptance business became the hallmark of Merchant banker. Once these banks has gained the confidence of the government, they also entrusted with the job of issuing bonds in the London market.”(Lakshmana & Naik, 2002:88)

Merchant banking came into scene in USA in the early 19th century after the introduction of Blue Sky Laws to protect investors from fraudulent promoters and security salesmen. In India though merchant- banking activities originated before its independence. As a result of recommendations of Banking Commission in 1972, that Indian banks should start merchant banking services as part of their multiple services they could offer their clients, State Bank of India started the Merchant Banking Division in 1972.

In the context of Nepal though Merchant banking exist from the establishment of Nepal Bank Limited in 1990 B.S., its existence was in a crude form. After the restoration of democracy in 2046 B.S. and an announcement of government's economic liberalization policy, private sector investors are attracted to invest in different organized commercial ventures. As a result numerous new private and public limited companies were established in a very short span of time to reap the benefit of economic liberalization policy of the nation. The development activity though the country had created excess demand for the sources of funds by the ever-expanding industry and trade, which could not be met all by the local banks and financial institutions. In these circumstances, the corporate sector enterprises had the only alternative to avail themselves of the capital market service for meeting long-term fund requirements through issue of shares and debentures. The growing demand for funds from capital market has enthused many organizations to enter in to the field of merchant banking for managing the public issues.

The Finance Company Act 2042 gave birth to a new dimension to the merchant Banking Service as the act permits finance companies to sell and purchase the bonds issued by his Majesty's Government or securities issued by other companies or institution, to underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the Securities Exchange Act, 1983. Similarly section 3(g) of the same act permits them to perform functions of merchant Banking with prior approval of NRB.

Citizen Investment Trust (CIT) is a pioneer merchant banker of the country followed by other finance companies viz. NIDC Capital Market, National Finance Co., Nepal Share Market etc. At present few financial institutions {basically finance companies} are involved in different merchant banking activities. Out of wide rang of various services provided by Merchant bankers, Nepali merchant bankers provide very few of them like.

1.3 Focus of the Study

With the view to develop financial system in Nepal HMG/N has conducted various reforming activities especially after the restoration of democracy. Nepal is experiencing diversification in financial companies and co- operatives were established rapidly. With the growth of these sectors, merchant banking has also emerged.

Merchant banking work as a bridge, which provides every kind of financial assistance to industries and commerce. They play a highly significant role in mobilizing funds of savers to investible channels assuring of promising return on investments and thus can help in meeting the widening demand for investible funds for economic development of the country through its wide range of services.

The basic service provided by merchant banks are corporate counseling project counseling, issue management, underwriting of public issue, portfolio management, bankers to the issue, loan or credit syndication, merger and takeover, arranging offshore finance venture capital, factoring etc.

Thus the research is focused on the activity of financial institutions, which are involved in merchant banking activities. Those financial institutions, even merchant banks, are found to be performing other financial services as their major function leaving merchant banking function only as a part of their subsidiary function. However, present study will not be concerned with other activities. It will be focused only in merchant banking activities performed by those financial institutions. It studies and analyses the performance of all above- mentioned merchant banking activities performed by merchant banks in Nepal. Similarly it seeks about the problem of merchant bankers that has made merchant bankers to focus on other financial activities. It also tries to find out remedies to solve the problem and prospects of merchant banks in Nepal.

1.4 Statement of the Problem

Development of each and every country depends highly upon development of agriculture industry, trade, tourism, and other financial sector. The development of these sectors are impossible until and unless the financial system of the country is strong. Financial system is strengthened through developed financial market that includes capital market as well as money market. And the strength of capital market is highly depended upon developed upon developed merchant banking system. Merchant banks play a vital role in economic and financial development of the country. The development of merchant banking service is closely linked with worldwide move towards open and market oriented economic system.

In the context of Nepal where lots of financial systems are being slowed down due to insufficient capital, technical and financial support, merchant banks encourages them by its versatile services like project counseling, portfolio management, venture capital, issue management etc. Through merchant banking has emerge in developing countries long before, it has got new dimension only after issue of finance company act 2042. Thus we are not having a long history of merchant banking in Nepal. As a result most of the Nepalese are still and difference between commercial banking and merchant banking.

Thus people are unaware regarding the importance of merchant banking in the development of Nepalese Capital Market and overall Nepal.

However, Nepal is still lacking specific rules, regulations and guidelines regarding merchant banking. Through some acts like commercial bank act, finance companies act, act for NIDC, CIT and other are permitted to undertake merchant banking activities, but none of these Acts gives clear definition of merchant banking.

In spite of the importance of merchant banking services many of the merchant banking service in the country are still poor and only few merchant banking service are in practice in our country. The mainly rendered services are: Underwriting, Issue Management, Bankers to the issue and Leasing. Thus, merchant banking in Nepal is understood to be synonymous with issue managements, though globally this word is taken to mean everything in financial services.

1.5 Objectives of the Study

Financial activities grow with the improvement of economic situations. And, as the financial activities grow, the need of various merchant banking activities will be felt. Merchant Banks have emerged in Nepal with the development of capital market. Merchant banking activities is one of the major supporting instruments for any ongoing business organization. Availing of the required merchant banking services help business sustain, develop, proper and so on. The purpose of this study therefore is to:

1. To study the significance of merchant banking towards the development of securities in Nepal.
2. To evaluate the performance of merchant banking in Nepal.
3. To study and analyze the growth of merchant banking in Nepal.
4. To analyze the problem and prospects of merchant banking in Nepal.
5. To suggest and recommend on the basis of major findings.

1.6 Significance of the Study

Merchant Banking is an unexplored field in Nepal. There is hardly very rare availability of research work, journal and articles in Merchant Banking in Nepal”. In this context, present study will serve as a source of literature in the field of merchant banking. The study attempts to fill a serious gap in this important area of capital structure practices with focus in merchant banking Services. The research would be helpful to the regulatory authorities like Securities Exchange Board of Nepal (SEBON), Nepal Rastra Bank and others. It would also be of interest to development banks, commercial banks, financial companies, merchant banks etc. It may help the professionals in the industry to have better understanding on the impact of merchant banking activities in the securities industry and also it may help the academicians and the researchers who study in these areas.

In brief, this study will be important for the following group and individuals:

1. The research will be useful for further researcher.
2. It will be useful for University students of new generations.
3. It will help financial managers & analysis.
4. It will also be very useful for regulatory authorities like securities Exchange Board of Nepal, Nepal Rastra Bank and all financial institutions in Nepal.

1.7 Limitations of the Study

This study is done for the partial fulfillment for Master’s of Business Studies. The study will be conducted within certain limitations and constraints. They are:

- Though there are a lot of financial institutions in Nepal, the study is focused on those financial institutions that leading merchant bankers. It is only focused merchant banking activities.
- The study is based on primary as well as secondary data. Any intentional default and reporting errors that may occur while obtaining the data will not affect the proposed study.

- Research is based on reports provided by listed financial institutions and responses made through questionnaires.
- Only available data is taken for the analysis and data provided by them. Thus the years are not consistent and the data provided by them are not be verified.
- The daily, weekly, monthly and yearly data is used as per the availability of the study.
- The study is conducted under the limited time.

1.8 Organization of the Study

The study has been divided into five different chapter, viz. Introduction, Review of literature Research Methodology, presentation and Analysis, Summary conclusion and Recommendation.

Chapter1: Introduction

The first introduction chapter deals with the introductory framework of the study. This includes background, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study itself.

Chapter 2: Review of literature

This chapter includes the review of literature available and review of related theoretical background of the relevant field of study, which aims ft forming a conceptual framework to the objective mentioned previously.

Chapter: 3 Research Methodologies

Third chapter explains the research methodology used for the purpose of the study, which includes research design, sources of data, data gathering procedure, population and tools used for the analysis of data.

Chapter: 4 Presentations and Analysis of Data

The fourth, which is the important chapter of the study, will include data classification, analysis and interpretation regarding the primary as well as secondary data.

Chapter: 5 Summary, Conclusion and Recommendations

The final and last chapter contains findings in aggregate, conclusions drawn through the finding, and the probable suggestions and solutions as 'recommendations' enlightened through the study.

A bibliography and appendices will be attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of Literature is one of the important parts of the thesis. This study has been effectively conducted through study of various old thesis, dissertation, newspaper, magazine and suggestion of the experts of related field. The basic concern of the study is to focus on the merchant banking activities in Nepal. Theoretical aspects of merchant banking activities are explored in this chapter through review of related materials. This chapter reviews some basic academic course books, journals, articles and other related studies. Unfortunately, so far none of the researcher has performed research in this topic in Nepal. However, efforts have been made to gather information from all available arenas as possible.

2.1 Conceptual Review

2.1.1 Meaning of Merchant Banking

“Dictionary meaning of ‘merchant banking’ refers to an organization that underwrites corporate securities and advises such corporate securities and advises such clients on issues like corporate mergers, etc involved in the ownership of commercial ventures. This organization may be a bank, corporate body, form or proprietary concern.

In Indian context this definition suits well. Merchant banking in Indian starts with management of public issues and loan syndication and has been slowly and gradually covering activities like project counseling, portfolio management, investment counseling and mergers and amalgamation of corporate firms. Although, merchant banking organizations present a long list of services they contemplate to render their clients but the main services so far being rendered by them are those as authorized by the Securities & Exchange Board of India under categories I, II, III and IV. A ‘merchant banker’ has been defined under the Securities Exchange Board of India (Merchant Bankers) Rules, 1992 as

‘any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager, consultant, advisor or rendering corporate advisory in relation to such issue management’.(Verma, 4th Edition:120)

Merchant Banking stands for providing various services relating to capital market and finance to corporate sector. This includes not only the activities for the above purpose in the country but at times arranging funds from outside the country. The merchant banker also provides consultancy to the corporate sector on the issues like finance, capital structure and investment, mergers, takeover and amalgamations, establishing coordination between the government and corporate sector. In fact the merchant banker should be able to provide guidance to an entrepreneur on all matters from the stage of conception of a project in his mind till it goes into commercial production. A good merchant banker would be considered to be one who is expert, honest, has integrity and capacity to develop public relations. Whenever a business concern needs funds from the capital market it would usually approach the Merchant banker rather than banks or financial institutions.(Toor,7th Edition:130)

Investment bankers, also called merchant banks, purchase newly issued stocks and bonds from corporations and government. They then resell the securities to investors in small quantities. An investment bank makes a profit by selling securities at a higher price than it pays for them. The first merchant banks were formed by British merchants in 1800's. From the 1930's to the 1980's, the U.S. government prohibited any institution that from engaging in investment Banking. Since then, however, government has permitted large commercial banks to buy and sell securities within limits. (World Book Millennium 2000:180)

Investment banks provide long-term finance industry. They are sometimes described as industrial banks or private banks. In French speaking countries people use the term banques d'affaires. Most investment banks do not accept deposits from the general public, both deal with limited number of clients, and on their

won capital and reserves, to finance their lending to industry. Investment bank provide long term finance to borrowers in two main ways. In the first they grant long term credit to companies usually for eight to ten years. In the second, they acquire part of the share capital of companies. Many companies sell their shares through investment banks, and the banks some times retain some of the shares. Investment banks provide several important extra services for their customers. They act as economic and financial advisers. If customer intends to undertake new industrial ventures, the banks may give technical advice. (The World Book Endyclopedia 2002:190)

Investment bankers market new stock and bond offering to individual and institutional investors around the world.(Edmister, 2001:188)

Most of the banks have now opened up 'Merchant Banking' or Management' department which specialized on domestic corporate financing and associated business such as underwriting of capital, issues, acting as managers to new issues and evaluation of customers existing and proposed new business. These services are of a fairly wide range, which extend to examination of proposals for mergers and amalgamations of companies and arrangements of loans or short-term finance. The banks also, because of their international connections, assist in arranging foreign exchange element required by industries for their projects and loans with banks and other institutions outside India. (Tannan,1999:581)

2.1.2 Nature of Merchant Banking

The services of a merchant banker could cover project counseling and pre- investment activities, feasibility studies, project reports, design of capital structure issue management and underwriting, loan syndication, mobilization of funds from Non-resident Indians, foreign currency finance mergers, amalgamations and takeover, venture capital, and public deposits.

Merchant banking is a skill- based activity and involves servicing every financial need of the client. It requires a focused skill base to provide for the requirements of a client. EBI

has made the quality of manpower as one of the criteria for renewal of merchant banking registration. These skills should not be concentrated in issue management and underwriting alone, which may have an adverse impact on business as witnessed in 1995. Merchant bankers can turn to any of the activities mentioned above, depending on resources, such as capital, foreign tie-ups for overseas activities and skills. They can provide the entire gamut of services or develop niche business. The depth and sophistication in merchant banking business are improving since the avenues for raising funds are widening and demand for funds is increasing. (Marchiraju, 2nd Edition:2)

2.1.3 Merchant Banking Organizations

In India, merchant banks operate in the form of Divisions of Indian and foreign banks and financial institutions, subsidiary companies established by banks like SBI Capital Markets Ltd. Can bank Financial Services Ltd; PNB Capital Services Ltd, BOI Finance Ltd., Indian Bank Merchant Banking Services Ltd. Etc. public and private limited companies or the firms organized by the stock brokers, stock exchange dealers, the financial and technical consultants and chartered accountants, securities and exchange board of India (SEBI) had divided merchant bankers into four categories viz I, II, III, IV.

2.1.4 Responsibilities of Merchant Banker

To the investors

Investor protection is fundamental to a healthy growth of the Capital Market. Protection is not to be conceived as that of compensating for the losses suffered. The responsibility of the Merchant Banker is ensuring the completeness of the disclosures is of paramount importance in view of the fact that entire reliance is based on offer Document either Prospectus or Letter of Offer because an independent agency like a Merchant Banker has done the scrutiny.

Capital structuring

The Merchant Bankers while designing the capital structure take into account the various factors such as Leverage effect on earnings per share, the project cost and the gestation period, cash flow ability of the company, the cost of capital, the consideration of management control, size of the company, and general economic factors. These excises are done mainly in order to meet the fund requirement of the company taking due cognizance of the investors' preference.

Project Evaluation and due Diligence

Due diligence and project evaluation is another major responsibility of the Merchant Banker. Where a bank/financial institution the Merchant Banker has already appraised the project relies on the said appraisal before accepting an assignment. However, where a bank/financial institution have not appraised the project, the Merchant Bank undertakes a detailed evaluation of the project before taking up an assignment for issue management.

Legal Aspects

The factors that looked into in case of the legal aspects

- Compliance with the SEBI guidelines, the companies Act, the Securities Contract Regulation Act and Rules and the various guidelines issued by the Ministry of Finance and Department of Company Affairs.
- Pending litigations, disputes, defaults, over dues to financial institutions and banks, proceeding initiated for economic offences against the promoters in respect of any of their business ventures in India or against the promoter's ventures or associate/group companies.
- Pending litigation's towards tax liabilities or any criminal/civil prosecution any of the directors for any offenses.
- Material litigation pertaining to either the matter likely to affect the operations and finances of the company.
- Criminal prosecution launched against the company and its directors for alleged offences under the enactment's specified in Part1 of Schedule XIII of the Companies Act.

- Defaults in meeting statutory dues, institutional dues and dues towards instrument holders like fixed deposit holders.
- Material development after the date of the last Balance Sheet.
- Fair and adequate disclosures in the prospectus.

Pricing of the Issue

The merchant Banker looks into the various factors while pricing the issue. Some of the factors are past financial performance of the company, Book value per share, Stock market performance of the shares (for existing companies, stock market perception of the company/group promoters, Price earnings ratio of the company/industry, brand equity, if any. The merchant banker has a vital role to play in pricing of the instrument.

Marketing of the issue

Marketing of the issue is a vital responsibility of the Merchant Banker. The first stage in the pre- issue marketing for placement of the issue with the financial institutions, banks, mutual funds, FII's and NRI's. The second stage is the marketing of the issue to the general public through various vehicles such as press, brokers, etc.

Bought out Deals

The concept of wholesale but out of public offerings by the Merchant Bankers started off with over the Counter Exchange of India where a Merchant Banker act also a sponsor and either takes up the entire issue to be offered wholly or jointly with other co-investors and off-loads the same to the public at a later date by an offer for sale. The role of a Merchant Banker on the OTC exchange is not only that of a Merchant Banker but that of an investment banker too. Major amendments were made to the SEBI regulations regarding Merchant Bankers in September 1997. Both the old and new regulatory framework for Merchant Bankers is presently in force. The duration of this transition period has not officially been announced. (Marchiraju, 2nd edition:21)

2.3.5 Difference between Merchant Banks & Commercial Banks

“The basic difference between merchant banking and commercial banking is that the merchant bank offers mainly financial advice & services for a fee and collects deposits through the non cash mode of finance i.e. security paper while commercial bank accept deposits and lend money in the mode of cash. Moreover, the merchant bank offers portfolio services to its customers. In the context of Nepal the regulatory body for commercial bank is recently announcement bank and finance ordinance 2061, where for merchant banking security exchange board is the regulatory body. Generally commercial Banks are for accepting deposit and landing of funds or investment of deposit for public and corporate. And merchant banking is for underwriting, securities, issues of the securities, mutual fund and in total for non cash capital market. (individuals & corporate) while the commercial bank

2.1.6 Banker and Merchant Banker

A banker has funds with him which he mobilizes through deposits and borrowing or other ways and than deploys or lends these funds, where as a merchant banker does not have any fund in his own kitty but he has the expertise and access to various sources of funds as per needs of the client. The bankers find merchant banking activity to be highly remunerating because of:

- a. Deposits on short term basis
- b. The business helps to improve their profits and profitability
- c. The business also helps to get good corporate clients.

They are extending the merchant banking services through:

- a. Merchant banking Division established by them
- b. Merchant banking subsidiaries established by them.

2.1.7 Merchant Banking: International Scenario

a. Merchant Bank in the United Kingdom

In the United Kingdom, merchant banks came on the scene in the late eighteenth century and early nineteenth century. Industrial revolution made England into a powerful trading nation. Rich merchant houses that made their fortune in colonial trade diversified into banking. Their principal activity started with the acceptance of commercial bills pertaining to domestic as well as international trade. The acceptance of the trade bills and their discounting gave rise to acceptance houses, discount houses, and issue houses. Merchant banks initially included acceptance houses, discount houses and issue houses. A merchant banker was primarily a merchant rather than his customers entrusted banker but him with funds.

The term Merchant Bank is used in United Kingdom to denote neither banks that are not merchants, sometimes for merchants who are not bankers and sometimes for business houses that are neither merchant nor banks. The confusion has arisen because modern Merchant Banks have a wide range of activities. Merchant Banks in United Kingdom have function of finance foreign trade, issue capital, manage individual funds, undertake foreign security business, and foreign loan business. They also used to finance sovereign government through grant of long-term loans. They financed the British Government to the State of Louisiana from Napoleon by raising loans from money market in London; and Lazard Brothers granted loan to the Second World War commercial banks in Western Europe have been offering multiple services including Merchant Banking services to their individual and corporate clients. British banks set-up divisions or subsidiaries to offer their customers Merchant Banking services. (Lakshmana & Naik, 2002:91)

b. Investment Banking in USA

English and European Merchant Banks played a prominent role in the United States until indigenous Investment Bankers emerged on the scene in 1880's. In the early nineteenth

century English and European Merchant Bankers met the requirements of finance for railroad construction and international trade. Later they opened their own offices in USA. Kidder, Peabody & Co.'s set-up in 1824 and John Eliot Thayer banking firm in 1857. During 1850-60 several Merchant Banks were set-up to arrange capital and enterprise to promote railways, industrial projects and trade and commerce. To finance railroad construction, capital issues were arranged by Merchant Bankers. In the late 1890's and early 1900's Investment Bankers replaced brokers and promoters who earlier played a prominent role in issue of securities. Investment bankers apart from launching and organizing industrial unit and mergers, helped transform privately held companies into public owned companies.

Investment Banking largely remained unregulated until the Blue sky Laws were introduced in Kansas to protect investors from fraudulent promoters and security salesmen. However, their growth was facilitated by the enactment of Federal Act in 1941, emergence of US dollars as leading currency and expansion of activities of US banking system. Prominent Investment Bankers in 1920's were Kidder, Peabody, Drexel, Morgan & Co; Brown Bros. and T.P. Morgan who brought and sold corporate bonds and stocks on commission, dealt in federal, state and municipal securities, trading and investing in securities on their own account, originating and distributing new issues on their own account, originating and distributing new issues and participating in the management of corporations whose securities they have helped distribute or in which invested.

After the great crash 1929 and depression, the Investment Banking business considerably contracted and experienced heavy financial losses. The Federal government enacted several laws, called New Deal Enactment, to reform Wall Street practices to protect the interest of the investors. Officially called the Banking Act of 1933, the Glass- Steagall Banking Act separated Investment Banking and commercial banking and prohibited depositories from underwriting. Securities Exchange Act of 1934 sought to correct practices in securities trading.

The Glass-Steagall Banking Act prohibits commercial banks from acting as Investment banks or owning a firm dealing in securities. The Act has been challenged by banks offering money market mutual funds and other investment services and is expected to be the subject of reform. The US Federal Reserve Board decided in January 1997 to issue a sweeping proposal (subject to 60 day comment period) that would loosen restrictions in banks' activities in the securities business. Under the proposal bank holding companies and their securities activities of banks are allowed under a special provision in Glass-Steagall Act to be conducted by separately capitalized subsidiaries, in 1987 when Fed first began allowing the existence of such subsidiaries it subjected them to strict provision, including a series of barriers "firewalls" separating the activities of the bank and the affiliate. As the part of the recent changes to those provisions the Fed has voted to allow the securities affiliate of banks to generate as much as a quarter of their revenue from the underwriting and dealing of securities-an increase from the previous limit of 10 percent.

Regulation of Investment banking in USA

Investment Banking in USA as compared to Merchant Banking in the United Kingdom is subject to following regulation:

- ❖ The securities Exchange Commission (SEC) exercises advisory and regulatory role on Investment Bankers.
- ❖ Investment Bankers were restricted from undertaking reorganization of public corporations under the Chandler Act. The task was assigned to distinguished trustees.
- ❖ Association of trustee with either the issuer or its Investment Banker was prohibited under the Trustee Indenture Act, 1939. To protect the interest of security holders the trust indenture had to be filed with SEC.
- ❖ The investment and portfolio activities became subject to SEC supervision.

Investment trust was covered by Investment Company Act, 1940 which sought to regulate them; and investment advisors are required to be registered under the Investment Advisors Act, 1940. SEC was designated the supervisory and enforcement authority. Its

powers were further strengthened in 1960 by authorizing it to inspect the records and accounts of firms engaged in the business. The increased regulation and control of domestic operations gave a fillip to large US banks to markets. The US Investment banks have extended their operations to the international level. They are large responsible and globalization of capital markets. They have a prominent presence in London and other European financial centers. Investment Banks have today a strong parent, a strong balance sheet and a strong international network to play a global role. (Lakshmana & Naik,2002:92)

c. Merchant Banking in India

Merchant banking activity was formally initiated into the India capital markets when Grindlays Bank received the license from Reserve Bank in 1967. Grindlays which started with management of capital issues, recognized the needs of emerging class of entrepreneurs for diverse financial service ranging from production planning and systems design to market research. Apart from meeting specially, the needs of small-scale units, it provided management consultancy services to large and medium sized companies. Following Grindlays bank, Citibank set up its merchant banking division in 1970. The division took up the task of assisting new entrepreneurs and existing units in the evaluation of new projects and raising funds through borrowing and issue of equity. Management consultancy services were also offered.

Consequent to the recommendations of Banking Commission in 1972, that Indian banks should start merchant banking services as part of their multiple services they could offer their client, State bank of India started the Merchant Banking Division in 1972. in the initial years the SBI's objective was to render corporate advice and assistance to small and medium entrepreneurs.(Naik 2002:95)

2.1.8 Qualities of Good Merchant Banker

Following are the qualities that good merchant bankers should possess:

- 1. Leadership:** Merchant Banker should possess all relevant skills, updated knowledge to interact with clients and effectively communicate. Leadership is synonymous with followers who follow the one who leads.

- 2. Aggressiveness action:** Aggressiveness is a personality trait of a good leader but in merchant banking it has a wider connotation. Aggressive merchant bankers are always looking for new business. A good merchant banker is the one who does not allow his client to think anything outside except what he has been advised. Therefore, promptness in grasping the client' problems and providing better choice amongst alternative solutions evidence aggressive approach in the profession to hold the client's interest in entirely for the present as well as for the future.

- 3. Co-operation and Friendliness:** No doubt, these two characteristics are the symbols of good leadership but it hardly needs to be stressed. Co-operation and friendliness coupled with persuasiveness are the main instruments with which a merchant banker mixes with the people, gathers information, obtain business mandate and renders satisfactory services to the clients. Business of an honest merchant banker spreads with geometrical propagation when he shares the thoughts of his clients with sympathetic gestures and offers pragmatic suggestions without greed or favors. These are the vices unbecoming of a merchant banker and should be eschewed. Friendliness must flow as natural traits in the merchant banker to win over the trust of the clients like a doctor or lawyer who retain their clients permanently.

- 4. Contacts:** success of a merchant banker depends upon his sociable nature and the richness of wider contacts. A merchant banker is supposed to be acquainted deeply with all the constituents of merchant banking. Merchant banker should widen contacts and references and continue to maintain the relationship with goodness, honor and humor by meeting people in person through writing and in special gatherings.

- 5. Attitude towards problem solving:** the most important personality trait of a merchant banker is his attitude towards problem solving. Every client come to him has got return fully satisfied having consulted a merchant banker. Positive approach to understand the view points of other, their difficulties and their adverse circumstances is possible only when a person is skilled in human relations particularly the inter-personal and intra-personal and intra-personal behavior. Effective communication and proper feedback are the pre-requisites for creating a positive attitude towards problem solving which could be gained partly through learning process and partly as in-born quality.
- 6. Inquisitiveness for acquiring new skills, information and know ledges:** merchant bankers live on their wits they earn by giving information to needy clients. Therefore, they should keep abreast with latest information in the area of the service product they market. This is possible if merchant bankers posses the quality of inquisitiveness.(verma,4th Edition:172)

2.1.9 Importance and Need of Merchant Banking

Important reason for the growth of merchant banking has been the development activity throughout the country, exerting excess demand on the sources of fund forever and demand of investible funds. All India financial institutions had experienced resource constraint to meet the ever- increasing demand for funds from the corporate sector enterprises. In the circumstances corporate sector had the capital market services for meeting their long- term financial requirements through capital issues of equity and debentures with the growing demand for funds there was pressure on capital market that enthused the commercial banks, share brokers and financial consultancy firms to enter into the field of merchant banking and share the growing capital market. With the result, the entire commercial banks in nationalized and public sector as well as in private sector including the foreign banks in India have opened their merchant baking windows and competing in this field. There has a

mushroom growth of financial consultancy firms and broker firms doing advisory functions as merchant bankers as well as managing public issues in syndication with other merchant bankers.

Notwithstanding the above facts, the need of merchant banking institutions is felt in the wake of huge public savings lying still untapped Merchant banks can play highly significant role in mobilizing funds of savers to investible channels assuring promising return on investments and thus can help in meeting the widening demand for investible funds for economic activity with the growth of merchant banking profession corporate enterprises in both public and private sectors would be able to raise required amount of funds annually from the capital market to meet the growing required for funds for establishing new enterprises, undertaking expansion/modernization/ diversification of the existing need for a vigorous role to be played by merchant banks.

Merchant banks have been procuring impressive support from capital market for the corporate sector for financing their projects. This is evidence from the increasing amount raised from the capital market by corporate enterprises year after year.

In view of multitude of enactments, rules regulations, guidelines and off shoot press release instructions brought out by the Government from to time imposing statutory obligations upon the corporate sector to comply with all those requirements prescribed therein, the need of skilled agency existed which could provide counseling in these matters in a package form. Merchant bankers, with their skills, updated information and knowledge, provide the service to the corporate units and advise them on such requirements to be complied with for raising funds from the capital market under different enactments viz. Companies Act, Income-tax Act, foreign exchange Regulation Act, Securities Contracts (Regulation) Act, and various other corporate laws and regulations.

Merchant banker advise the investors of the incentives available in the form of tax relief, other statutory relaxations, good return of investment and capital appreciation in such investment to motivate them to invest their savings in securities of the corporate sector. Thus, the merchant bankers help industry and trade to raise funds, and the investors to invest their saved money in confidence, safety and expectation for higher yield.

2.2 A Brief Survey of Related Literature

2.2.1 Review of Journals/Articles

Mr. Madhuban L. Shrestha (2056) in his article “Merchant Banking- an Outlook” in Nepal Bank Patrika has thrown light of merchant banking in Nepalese Perspective. Shrestha indicates that Merchant Banking in its crude form exist in Nepal from the advent of modern banking system with the establishment of Nepal Bank Limited. However, Security Exchange Centre set up in 1976 was the pioneer institution on the capital market in Nepal. Modern and innovative services on banking sector were introduced by the establishment of joint venture banks in the country. The Finance Company act 2042 gave birth a new dimension to the merchant Banking Services. After the restoration of democracy, the country launched financial liberalization and privatization programmes. As a result maximum participation from the public took place and the country entered on the new industrialization process through rapid development on capital market. Consequently there is calling for the different services of the capital market and merchant banking services are sought from various sectors of the economy.

Citizen Investment Trust (CIT) is a pioneer merchant banker of the country followed by other finance companies viz. NIDC Capital Market, National Finance Co, Nepal Share Market etc. there are a few number of incorporated bodies that also render these services. Recently Rastriya Banijya Bank has opened a separate Merchant Banking Division. Thus this is a time to think seriously by the commercial banks that apart from their traditional business, they have to add such new ventures which will pay high return to them with nominal investment.

Mr. Ramesh Kumar Pokharel (2057) in his article ‘Merchant Banking Service in Nepal’ in Banking Prabardhan, 2057 vol. 11 has mentioned on Regulatory Aspects of Merchant Banking in Nepal. According to Mr. Pokharel, Merchant Banking is a new concept for Nepal. Its role as an important financial intermediary cannot be challenged from anywhere in the growing financial system of Nepal. Although a few financial institutions (basically Finance Companies) are involved in Finance Company Act, 1986 and no specific legal provisions to be complied by merchant banker. However section 3(e) of Finance Company Act, 1986 permits finance companies to sell and purchase the bonds issued by His Majesty’s Government or securities issued by other companies or institutions, to underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the Securities Exchange Act, 1983. And section 3 (g) of the same act permits them to perform functions of merchant banking with prior approval of NRB.

Since there is separate entity to carry out the merchant banking activities in Nepal, these activities are associated with other transaction of finance companies. These institutions are expected to meet NRB’s requirements on:

- Minimum paid-up capital and the prescribed risk-weighted capital ratio;
- The Liquidity Ratio;
- Merchant Banking activities up to 60% of total Credit and Investment Portfolio;
- Issue Management and Underwriting up to a maximum of 10% of total loan and advances of finance company;
- Likewise, there is no guideline issued by NRB especially for merchant banking in following respects;
- The minimum acceptable percentage of income from fee-based activities;
- Issuance of negotiable certificate of deposits; and
- Terms governing the acceptance of time deposits.

Mr. Pokharel has also pointed out on examination requirements for Merchant Banking. He writes that is a matter of fact that no adequate directives have been issued for the regulatory and monitoring purpose pertaining to Merchant Banking, however inspectors

while making supervision to these services should basically focus on the following parts of these transactions;

- Agreement between the parties, specific terms and conditions.
- Legal and regulatory provisions related to public issue (Company Act, Securities Board's Regulations).
- Underwriting services and its accounting treatment.
- Volume of Underwriting and Issue management (to confirm whether these transactions fall under the NRB's directives or not)
- Other issues relevant to specific merchant banking function.

Mr. Pokharel also writes the problems and issues in Merchant Banking services in Nepal in eight points which are mentioned below:

1. Normally in any business, there should not be confusion about the customer. However, in merchant banking services, especially in issue management, some problems can be prevailed. MBs are commissioned and paid for the company issuing the shares/debentures. Apparently, the issuing company is the customer of the MB. However, the fee received by the MB comes from the investors who subscribe to the shares/debentures. Thus it is not wrong to say that the fees to MB are ultimately paid by the prospective investors of the shares/debentures. Thus it is very hard for MB to serve for the best interest and issuing company.
2. MBs should ensure to the investor that all possible information about the issue is given and that post-issue management i.e. allotment of shares etc and refund are effected with utmost expedition. In the pre-issue phase, MBs should ensure the investors that the issuer is having a good track record and thus MBs should give a clean sheet to the issuer. In case the issuer is found guilty then MBs ultimately suffer and should face the public or investors.
3. Post issue management has become a difficult task in Nepal, especially because of heavy over-subscriptions of vast majority of issues due to

unrealistically low flotation pricing of issues by existing company. The problems are accompanied by rigid rules of allotment prescribed by Stock-exchange that favour small applicants and therefore increase the number of applicants. The banking system is extensively used for this purpose but it seems very hard to cope with the load.

4. To the issuing company, MBs should render high standards of professional services and also perform their role with due diligence.
5. Merchant banking service has become more challenging for the monitoring system of Nepal especially of the central bank due to the lack of adequate legal and regulatory framework.
6. There should be a prudent and sound financial market to adopt the different merchant banking services. Due to the limitation of financial market the services rendered by merchant banking are also limited in Nepal.
7. In implementing self – regulatory mechanism, MBs would have to monitor the performance of other agencies that also provide services to the issuer. There are Advertising Agencies, Registrar to the issue and other financial institution. But in Nepal MBs do not have any control over these agencies, although MBs are held responsible for the performance or lack of it by the associated agencies.
8. According to comprehensive guidelines formulated by Stock- Exchange, a company should either be already listed or should be listed in Stock-Exchange within three months of the closure of the issue. But generally listing is being done lately due to large numbers of shareholders, and provision regarding transferability.

Mr. K.B. Kayal (2060) in the article ‘An Overview of Merchant Banking’ in Prasichhin, writes challenges ahead to Merchant Banker. According to Mr. Kayal, Merchant bankers have to tap the opportunities lying ahead with the developing pace of the economy. These opportunities arise in the form of challenges before the merchant bankers to rest their skills, expertise and efforts to attune their activities with the programme of economic development of the country, adopt new instruments an innovative means of financing to

meet the growing financial requirement of the corporate clients. Some of the areas of challenges, which have been explored on the basis of research, are classified as under.

1. Merchant bankers will have to conduct management of capital issues in a different fashion than what is being done at present. If small industries are to be provided the full benefit of their services of corporate counseling project counseling and loan syndication then besides distribution of their securities to the public and arranging long-term institutional or banking finance for them, it would be necessary for merchant banks to make out- right purchase of capital issues in to the to retain the purchases equity of the company till the implementation of the project commencement of production and profitable working of the company when the issue may be treated as good for marketing to the general public may be on premium, so as to make capital gains, on that. This course of action will benefit the small industries in many ways; firstly they will have the quick liquidity and secondly, their project will implemented under the skilled supervision and expert guidance of the merchant bankers. Besides, the investing public will willing to purchase the issue at premium, having foreseen the dividend paying capacity of the only course, if adopted, would reduce cost of the issue to negligible extent.
2. if the planned objective of economic decentralization and rapid development of rural economy is to be achieved, merchant bankers will have to make experts efforts in the interest of the national economy by mobilizing the savings from the rural sector and creating avenues for its investment in rural areas in industry, trade and commerce in different magnitude encouraging the local people to espouse entrepreneurship in industrial undertakings in higher degree so as to reduce their dependence on land farming or other means of rural avocations. Alternatively, this poses a big challenge for the merchant bankers to manage the surplus money available with the villager by holding portfolio on their behalf or by channel sing it directly to industry in the shape of fixed deposits etc.
3. Increasing number of sick industries is the ever-growing threat for the industrial economy of the country. Merchant bankers have to find out ways and means for

rehabilitating the sick industries and also devise the manner by which the running industry might be smell developing weakness in the management of the enterprise and suggest timely leading to sickness of the industrial unit 'Management buy-out' is one of the technique which has been successfully tried in European countries as well as in USA, to check sickness in industry. This device encourages the executive staff of the company to purchase the shareholdings of the proprietors and promoters and run the factory on professional basis. Venture capital funds contribute substantially in this area of finance.

4. The million of small are unable to manage their savings in Nepal in both rural and urban areas. These are mainly the people from the middle class and lower middle class. Merchant bankers must devise ways and means to provide services for portfolio management to these citizens. This may be by taking recourse to encouraging the 'mutual funds'.
5. Public and private sector institutions engaged in trade, commerce and industry have many times surplus funds lying with them awaiting opportunity outside. These funds should be tapped by the merchant bankers from time by mobilizing them to deficit areas in profitable return basis playing the interest rate games as is done in SWAP deals in international finance.
6. In the international field, where public and private enterprises are entering to raise foreign currency resources, Nepalese counterparts have to depend upon the assistance of foreign merchant bankers. Nepalese merchant bankers, therefore, will have to sharpen their skills and attain the requisite expertise in the field of international merchant banking.
7. Attention is required to be gathered to the point that the banks and the financial institutions which are running the merchant banking division can think in terms of taking up the activity of providing acceptance credit and re-discounting facility to certain number of their client on experimental basis on the lines of the traditional activity of European merchant bankers. This will help for creation of secondary market for commercial papers as well.
8. To tap the latest technology available internationally and procure the transfer of tours of foreign countries, organize meetings and conferences with the chamber of

commerce and Industry and other commercial, industrial and financial organizations so as to entuse the foreigners to take interest in investment activity in Nepal. merchant Bankers, therefore, have to take latest information about the economic, social and political environment of our country to foreign countries and apprise the foreigners with the facilities and relaxations in carious rules and regulations of the government and the policy framework available for their benefit in case they choose in invest in Nepal or lend their technological expertise to Nepalese entrepreneur and /or to collaborator in any other useful manner.

Mr. M.L. Shrestha (2062) in his article ‘Portfolio Management a Merchant Banking Service’ in Nepal Bank Patrika - Ashwin Masanta has written portfolio management as one of the merchant banking service. According to Mr. Shrestha, optimal portfolio produce the maximum return with minimum portfolio, it has been purely a professional approach. Merchant bankers are one of those who render this service to the investors. He writes portfolio management, thus, means the personalu commitment of Merchant Banker to take care of investment of investor with the prudence and astuteness of a professional fund manage give investor his money, worth.

Mr. Shrestha has mentioned two basic principles for effective portfolio management, which is as follow:

- a. Effective Investment Planning: Merchant bankers must consider the factors such as fiscal, financial, monetary, credit policies of central bank and guidelines and directives issued time to time by stock exchange.
- b. Constant Review of Portfolio: Merchant banker should condtantly review their investment in securities and continue selling and buying the same to earn profits.

in connection to portfolio management in Nepalese context, Mr. Shrestha writes there is no any regulatory framework made in this sector so far in Nepal. Neither the government

has initiated any law nor has the stock exchange board of Nepal issued any rules and regulation regarding the operation of Portfolio Management Service. However, NIDC Capital Markets Ltd, 1st Merchant bank of Nepal, has launched the step to render this service from its initial period.

As per their research and analysis, they have pointed out following sectors are attractive for the Nepalese investors:

- ❖ Construction material
- ❖ Financial Services
- ❖ Health and Pharmaceuticals
- ❖ Education and allied Services and Products
- ❖ Livestock (Diary, meat production, leather products etc.)
- ❖ Tourism
- ❖ Textile
- ❖ Office Services (software development, media planning and advertisement)

Minimum size of each account should not be less than Rs.5 million to term to take up for portfolio management. The fund accepted for portfolio management by them, will be spread to into the above mentioned different investment opportunities, which yield better and provide better quality of investment. Their target is to maximize the earning via current income and capital gains. But the structure of return will depend on the objectives and preferences of the investor. As a Manager, their paramount concern is the safety of portfolio of the investor.

After the advent of liberalization policy in Nepal, it went on a new direction on economic activities. As a result now in Nepal too such kind of service is available. So, for those investors who really want to enjoy maximizing their wealth with liquidity and safety of investment, they can approach to the Merchant Banker and get rid of handling the day-to-day task of administering portfolios. One can handover all the investment decision to them enjoying better from the surplus fund.

Mr. Kalyan Bandhu Aryal (2063) in the article ‘Merchant Banking and Mutual Fund in Nepal’ by in Nepal Rastra Bank Samachar, he highlight the scenario of merchant banking and mutual fund in Nepal. As far as Mutual Fund is concerned, he says that the concept of mutual fund has been introduced in Nepal from last decade. He again writes, there is no separate entity or company to carry over this business in Nepal. NIDC Capital Market Ltd. Operated as a management and NIDC had been acting this business as a trustee.

Mr. Aryal also gives examination procedures for merchant banking and mutual fund as follow:

Merchant Banking: Inspectors should primarily focus on the following aspect while making supervision of the merchant banking activities;

- Agreement between the parties; specific terms and conditions.
- Legal and regulatory provisions related to public issue (Company Act, Securities Exchange Act and Nepal Securities Board’s Regulations).
- Underwriting services and its accounting treatment.
- Other issue relevant to specific merchant banking functions.

Mutual Fund: NRB has not issued specific directives on mutual fund related activities; however the company carrying mutual fund activities may design specific norms and self regulatory provisions with the objective of diversifying risk. These provisions may include:

- Limit of investment in a company.
- Maximum holding limit of shares/debentures of a company.
- Listing of units with the stock exchange.
- Liquidity provision.
- Calculation of NAV and costs incurred by the managing company.

Mr. Gautam ‘Biji’(2063) in his article ‘Leasing Finance in Nepal’ in Nepal Rastra Bank Samachar writes about theoretical framework, present status of Leasing Finance in Nepal, types, problems and suggestions. The problems of leasing business in Nepal according to him are lack of legal provisions, insufficient regulation, lack of business activities and

mega projects, discriminatory treatment for loan loss provision and confusing procedure for depreciation. Mr. Gautam concludes at last that leasing is a long term financing business activity. It allows both lesser and lessee with various advantages like: cent percent financing, depreciation facility even on land, financing, financing flexibility and so on. This does not mean that leasing is risk free and does not have a stated interest cost. It creates some problems for rentals. It raises some questions during the transfer of ownership, on realization of the salvage value of the assets and obsolescence in the leased asset. The new income tax act, just mentions the nature of lease, process for repayment, treatment of depreciation, sale or transfer of asset and process for treatment of tax.

Leasing is just a way to supplement the conventional methods of financing. It should be a mean not an end for the business activity. It requires competent manager to analyze and assign the limitation for leasing business. Though, present scenario is not encouraging for the leasing, may be the right time to open up public voice and ask for the government in designation of legal framework and necessary arrangements and central bank for the proper banking regulation.

“**In SEBO** (2005/06) Annual Report states that it has made some attempts to address the issues through issuance of guidelines, directives and disclosure format to the market participants, codes of conduct for the stock brokers etc. it has also prepared a draft for the new securities exchange act, which was presented to the Ministry of Finance in 1998 to initiate the necessary legislative process. However, it is still to be enacted by the parliament.

Even though SEBO has made attempts to solve the problems, they are still there. It cannot escape of its duty to explain the present state of the market and deficiencies existing in the system. Taking necessary support from the government it should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to comply and make others comply with the prevailing

rules and regulation. Only this can create the atmosphere where scandals neither like this one are nor repeated.

2.2.2 Review of Thesis

Ms Chandika Pradhan (2058) in her Research concludes that, Because of insufficient information and propaganda merchant banking is still unknown to most of the public resulting to low demand of merchant banking services. It is also not being able to prosper due to the less developed industrialization and financial marketing activities. Thus, In spite of the merchant banking services many of the merchant banking services in our country is poor so she recommended developing merchant banking function all over. All the sectors must be providing good environment for this.

She recommended merchant bankers themselves have to be more active to take latest information about the economic, social and political environment of our country and appraise the foreigners with the facilities and relaxations in various rules and regulations if the government and policy framework available for their technological expertise to Nepalese entrepreneur and or to collaborate in any other useful manner.

Bikas Shrestha (2059) in his Survey entitled “Liquidity in Stock Market-A case study of Listed Securities in Nepal Stock Exchange” submitted to the Tribhuban University, Kritipur. He said Capital Markets provide an important base for the development of industry, commerce and economy. Merchant Banking and capital market are interdependent with each other in many aspects. In this regard the analysis of public issues shows that merchant bankers are also playing a highly significant role towards the development of securities industry as well as capital market in Nepal.

Chakra Bir Bhandari(2063) in his Research concludes that merchant banking institution has great role in the development of capital market as well as whole economy. The

merchant banking is not able to be familiar to many financial institution of Nepal but some existence it has fulfill need of merchant banking. Although in Nepalese context public issue management, underwriting, Registrar to share, mutual funding and consultancy Service are major function of it. But instead it whole capital and entrepreneurship development is an important thing. In the capital market sector merchant banker provides an important base for the development of industry, commerce and economy. Merchant banking and capital market are interdependent with each other in many aspects. In conclusion he said that merchant banking practice in Nepal is very good.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research has been defined as “the systematic search for pertinent information on a specific topic.”(Gatner,1958:1) Research is common parlance that refers to a search for knowledge. As per the Webster International Dictionary, research is “a careful critical inquiry or examination on seeking facts and principles; diligent investigation in order to ascertain something.(Saravanvel,1999:1)

Research Methodology is a way to solve the Research problem. It maybe understood as a science of studying how Research is done scientifically. A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. Hence, this chapter looks into the research design, nature and sources of data, method of data collection, tool and techniques of data analysis and their limitations. The research methodology used in present study is mentioned below.

3.2 Research Design

“Research Design is the plan, structure and strategy of investigations conceived so as to obtain answer to research question and to control variances.”(Kerlinger, 1986:275) Thus, it means an overall framework or plan for the collection and analysis of data.

This research is based on recent historical data. It deals with the merchant banking activities of the companies taken as a case study on the basis of available information. This research is more quantitative or analytical based as well as descriptive and exploratory.

3.3 Population and Sample

For thesis writing in the topic “Merchant Banking Practice in Nepal”. it is very important and compulsory thing to study about Merchant Banker NIDC Capital market Ltd. was established in 2049 B.S. till date more than 15 merchant banker are established, where some of the listed merchant bankers organizations are as follows:

- NIDC Capital Market Ltd. (NIDC)
- United Finance Ltd.
- Citizen Investment Trust
- Ace Finance Company Ltd.
- Nepal Merchant Banking and Finance Ltd. (NMB)
- Nepal Share Market and Finance Ltd.
- Nepal Finance and Saving Company Ltd.
- National Finance Company Ltd.
- Annapurna Finance Company Ltd.
- Nepal Sri Lanka Merchant Bank Ltd.
- Cosmic Merchant Banking and Finance Ltd.
- Kist Merchant Banking and Finance Ltd.
- World Merchant Banking and Finance Ltd.

Thus for the study of merchant banking practice I have lot of population. But because of my primary study I come to know to that following three merchant bankers are actively participated. So I select following three institutions are as a sample of study. Basically seven years data have been presented and analyzed from fiscal year 2057/058-2063/64. They are:

- Citizen Investment Trust (CIT)
- NIDC Capital Market Ltd. (NIDC)
- Nepal Merchant Banking and Finance Ltd. (NMB)

3.4 Source of Data

This study is based on primary data as well as secondary data which are collected from various sources as per their requirement. The detail of the sources of primary and secondary data is given below.

A. Primary Data

The primary data are those, which are collected fresh and for the first time and thus happen to be original in character. Logical aspect of the study is explored mainly through primary data, which is collected using questionnaire is developed and distributed to various groups like executives and officers of necessary office. Similarly observation of merchant banking activities of few institutions is conducted as far as possible. Formal and informal interviews with the concerned authorities were also helpful to ascertain reliable and accurate information regarding merchant banking.

B. Secondary Data

“The secondary data are those which have already been collected by some one else and already, been passed through the statistical process.(Kothari, 1994:115) The secondary data has been collected from published materials of different organizations such as Nepal Rastra Bank, Securities Exchange Board of Nepal, Financial Institutional and Citizen Investment Trust. Likewise various data and information are collected from the economic journals, periodicals, bulletins, magazines, other published and unpublished reports and documents from various sources.

3.5 Method of Data Collection

In the process of collecting primary data, the methods like telephone enquiry, formal and informal interview and questionnaire analysis are also adopted wherever necessary. The formal as well as informal interviews are conducted with high level personnel of various fields. As far as questionnaire method is concerned, a set of questionnaire is developed to meet the objective of the study. A number of questions were put up by means of 52

copies of questionnaires. Categorically, the question raised through this means of two types namely objective questions and descriptive questions are distributed to the executives of various fields

Categories of Respondents of various field	Number
NRB	3
Banks	15
Finance Companies	20
CIT	2
Securities Exchange Board	3
Nepal Stock Exchange	1
NIDC	2
Chartered Accountants	6
Total	52

On the other hand secondary data are collected using methods like frequent various libraries, organizations and website. Library of Nepal Commerce Campus, Tribhuvan University, Indian Library, American Library, British Council and even Nepal Rastra Banks and Securities Exchange Board of Nepal helped as source for various useful books, journals, magazines and other published and unpublished reports.

Data are collected through annual reports, minutes, memorandum of association of several organizations and direct visit to Nepal Rastra Bank, Securities Exchange Board of Nepal, banks, finance companies and other organizations. Concept paper made by few organizations, newsletters, leaflet, bulletin, and brochure also helped in collection of data for the study. Similarly methods like surfing in websites and personal visits to books shops like National Book Shop, Ratna Pustak Bhandar, Bhrikuti Book Palace are used for the collection of data and information.

3.6 Method of Analysis and Presentation

Different relevant statistical tools are used to find out the best appropriate results as per designed objectives of the study. Several hypotheses are also formulated during the course of the study and analysis. The study has used the mix of statistical tools, from simple percentage analysis to hypothesis testing as per the requirements and their suitability. The statistical tools that are applied in this study are:

3.6.1 Statistical Tools

A. Arithmetic Mean

Arithmetic mean is the sum of all the observations divided by the number of observations. The arithmetic mean is denoted by (\bar{X}) .

In symbol,

$$\text{Arithmetic Mean } \bar{X} = \frac{\sum X}{N}$$

Where,

$$\sum X = \text{Sum of total value of observations}$$

N = Number of observations.

B. Standard Deviation

The standard deviation is most important and widely used measure of dispersion or variability. The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or \dagger . The standard deviation is also called “root mean- squared deviation” (R.M.S.D.).

In symbol,

$$\text{Standard Deviation } \dagger = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2}$$

Where,

N= Number of observations.

\bar{X} = Arithmetic Mean

$(X - \bar{X})$ = Absolute deviation taken from mean

C. Coefficient of variation (C.V.)

It is a relative measure of dispersion based on standard deviation. In order to compare the variability between two sets of data, coefficient of variation can be used as a useful method. Coefficient of variation is often abbreviated as C.V. and defined as:

$$\text{C.V.} = \frac{\dagger}{X} \times 100 \quad \text{Where,}$$

\dagger = Standard Deviation

It is a number expressed in percentage.

For comparing the variability between two or more than two sets of data, a distribution having more C.V. is considered more variable or more heterogeneous or less consistent, less uniform or less equitable or less stable etc. A distribution having lesser C.V. is considered less variable or more homogeneous or more consistent or more uniform or more equitable or more stable etc.

D. Chi- square test (χ^2)

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

Formula of chi- square is given below:

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

Where, χ^2 = chi-square statistic

O= Observed frequencies

E= expected frequencies

3.6.2 Financial Tools

A. Percentage Analysis:

The percentage analysis is done to compare the two or more data for general information. One can use the function to establish a threshold of acceptance. It is used as a method to divide the options of the related sectors into two or more sectors.

3.6.3 Diagrams and Graphs

A. Bar diagram:

As far as bar diagram is concerned, simple as well as multiple bar diagram are being used for the purpose of the study. Simple bar diagram for only one variable. It is used for the comparative study of two or more values of a single variable. On the other hand multiple bar diagram is used when two or one variable are to be compared at the same time.

B. Charts:

Pie-chart is another popular and widely used method for diagram presentation. Line Chart and pie- Chart are being used for the proposed of the study. Pie- chart is used to show the sector wise and instrument wise coverage in trading volumes. Line chart are used to show the income of the institutions and compared.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Data presentation and analysis is the one of the important part of the research work. The basic objective of this chapter is to analyze and elucidate the collected data following the conversion of unprocessed data to an understandable presentation. Thus, this chapter presents the analysis and interpretation of the data related to merchant banking.

In this chapter basically primary and secondary data are presented and analysis. For data presentation and about seven years data are used and analyzed. Secondary data have been collected particularly from annual report of merchant banker, Security Exchange Board of Nepal, websites and handouts prepared by the concerned companies. Similarly for primary data questionnaire and personal interviews were being held.

4.2 Presentation and Analysis of Secondary Data

In the context of secondary data basically public issued analysis, Underwriting, registrar to share mutual fund analysis and income analyzed from the merchant banking service with referencing secondary data or published data. For detail following topics are used.

4.2.1 Total Public Issue Analysis

The term public issue analysis represents the issue of securities specially share, preferred share and bond for the investment. In this topic total seven years public issue analysis.

Table No.4.1
Total Public Issue Analysis of Securities

Fiscal Year	Total number of issue	Issued Amount (Rs. in Million)
2057/058	9	410.49
2058/059	12	1441.33
2059/060	18	556.54
2060/061	14	1027.50
2061/062	14	1626.82
2062/063	29	2443.28
2063/064	34	2295.50
Total	130	9801.46

Source: SEBON Annual Report Fiscal Year 2006/07

Fig. 4.1 “A”
Public Issue Amount of Securities

Fig. 4.1 “B”
Public Issue Number of Securities

The table shows that the total number of issues and issued amount. With the analysis of seven years data from 2057/058 to 2063/64 the total public issue of securities is found one hundred thirty times. In the early stage of 2057/058, the total number of issue is only nine times. In fiscal year 2058/059 the number of issues is gone to be twelve times. As the same way the issue of numbers is move up. In current fiscal year 2063/064 the number of issue is highly increased to 34 times.

The total amount of issues is Rs.9801.46 (in million) from the last seven years. The analysis of data we are found that the total amount of issues is highly increased in 2058/059 as compared of 2057/058 and decreased in again next year. From the fiscal year 2058/059 the public issue trend is in the increasing mood. It means the Nepalese merchant banking is moving in better step.

4.2.2 Instrument wise Analysis of Total Public Issues

Generally, there are different types of instruments in Nepalese capital market. As the study of instrument wise analysis of total public issues, with the seven years data the different types of instruments are issued. Simply, ordinary share, right share, preferred share, debenture and mutual funds are used in the market.

Table No. 4.2
Total Instrument Wise Public Issues (2057/058 to 2063/064)

Instrument	No. of issues	Amount of issue in Rs in Million.	Issue in percentage
Ordinary share	72	2987.57	30.48
Right share	48	4213.99	42.99
Preferred share	2	540	5.51
Debenture	8	2060	21.02
Total	130	9801.56	100

Source: SEBON Annual Report Fiscal Year 2006/07

Fig. 4.2
Pie Chart Showing Total Instrument Wise
Public Issues

From the figure, it is clear that the major sources of finance for most of the corporate bodies in Nepal are right share. Out of 130 public issues during the fiscal year from 2057/058 to 2063/064, 42.99% of issues were through right shares, which contributed to raise Rs.4213.99 million capitals. The numbers of issues through ordinary shares were 72 with amounting Rs. 2987.57 that covered 30.48% of total issue. After this mostly issued instrument to raise capital was debenture and than preferred shares which were 21.02% and 5.51% respectively.

4.2.3 Sector wise Analysis of Total Public Issues

Sector wise analysis of total public issue means analysis of public issue by the organizations. In the matter we are going to analysis the total public issues as:

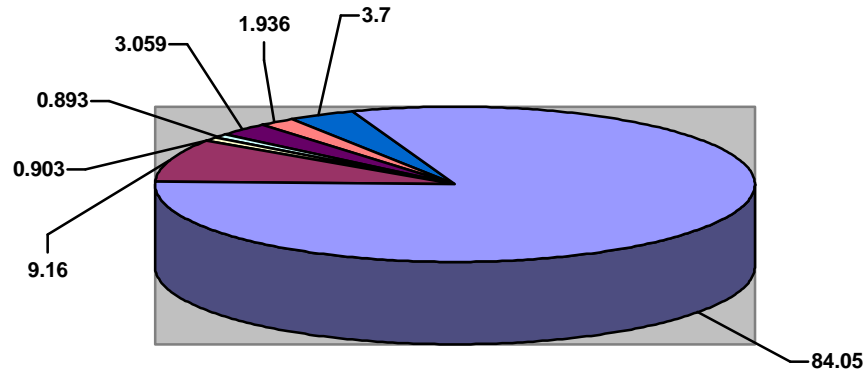
Table No. 4.3
Total sector wise public issues in percentage (057/58 to 063/64)

(Rs. In Million)

Sector	No. of issue	Amt. of issues	Issue in percentage
Commercial and Development Bank	57	16386.16	84.05
Finance company	59	1784.89	9.16
Insurance company	6	175.2	.903
Manufacturing company	1	173.46	.899
Hotel	2	596.45	3.059
Trading company	-	-	-
Others	2	377.41	1.936
Total	127	19493.66	100

Source: SEBON Annual Report Fiscal Year 2006/07

Fig. No. 4.3
Total Sector wise public issues



Commercial and Development Banks	Finance Companies
Insurance Companies	Manufacturing and Other Industries
Hotels	Others

From the above data it is clear that the financial company has the highest number of issues during the seven-year period, with fifty-nine issues, which is 9.16% of the total amount of Rs. 1784.98 million. In the context of commercial and development banks, the issuing amount has been the highest and has taken the second position, with only 57 issues, which is 84.05% of the total amount of Rs. 16386.16 million. As well as the manufacturing and other industries have issued once with Rs. 173.46 million and the percentage of issue has been 0.899 only. Insurance companies issue six times with the amount of Rs. 175.2 million. Where hotels have issued twice with the amount of Rs. 596.45 million. In the context of others, the issue has been twice with the amount of Rs. 377.41 million.

As the context of the issue amount, the finance companies have a less amount of issue, i.e. 9.16%, though the number of companies is higher than banks. On the other part, the bank has the highest amount of issue rather than finance company as 84.05% amazingly.

4.3 Merchant Bankers: Activity Performance

A. CITIZEN INVESTMENT TRUST (CIT)

Citizen Investment Trust (CIT) is incorporated under Citizen Investment Trust Act, 1990 with a view to expand investment opportunities by encouraging general public to save capital and to bring the dynamism in the development of capital markets. CIT is basically the savings and investment institution and it statutorily derives a special status and privileges, which adds up its strength to emerge as a national institution reaching wider spectrum of the population. CIT, at the same time, achieves a high professionalism in the financial intermediation and has a ability to provide varied capital market services.

The major function of CIT includes saving mobilization, investment/financing, and capital market services. Under capital market service, it provides trustee services and corporate finance services. And merchant banking service consists under corporate finance services. Out of various merchant banking services, the services provided by CIT are as follow:

a. Public Issue Management:

As one of the major function of merchant banking, CIT has been actively participating in management of public issue of securities from its establishment. It has managed public issue of ordinary shares of various companies like banks, finance companies, manufacturing industries and others. CIT has introduced unit scheme of its own institution. It has issued preference share and right share of Necon Air Ltd. it also issued, right share of Bottlers Nepal Ltd., Nepal Bank Limited, and NIDC Capital Markets Limited. CIT also worked as co- issue manager in the share issue of Neco Insurance Limited and Nepal Development Bank with Rastriya Banijya Bank and Nepal Merchant Banking & Finance Limited respectively. The detail of the issue is given in the Appendix 5 and the number and issue amount of the issues managed by CIT is shown in the table and chart below:

Table No. 4.4
Pubic Issue Managed By CIT

Fiscal Year	Total Issues and Issued by CIT		Total Issue Amt. and Covered by CIT(Rs in Million)	
	Issued by CIT	Total Issues Times	Covered by CIT	Total Issue Amt.
2057/058	2	9	167.21	410.49
2058/059	1	16	40	1441.33
2059/060	4	18	99.3	556.54
2060/061	3	14	552.5	1027.50
2061/062	3	14	478	1626.82
2062/063	4	29	494.91	2443.28
2063/064	2	34	484	2295.20
Total	19	134		

Source: SEBON Annual Report Fiscal Year 2006/07

Fig. No. 4.4
Issued Number Managed by CIT

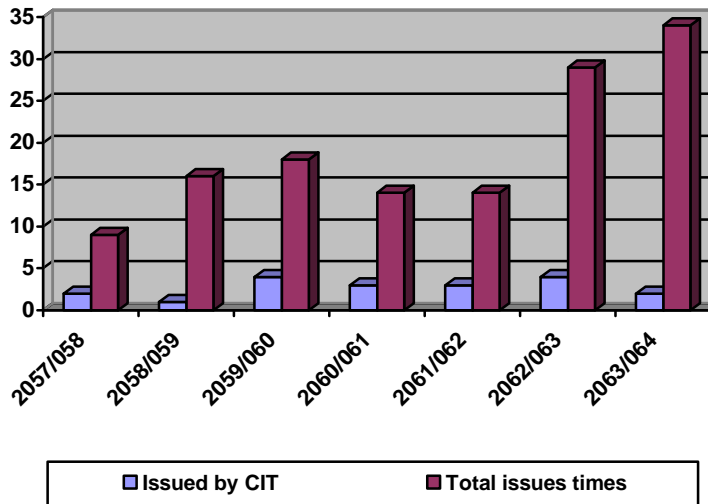
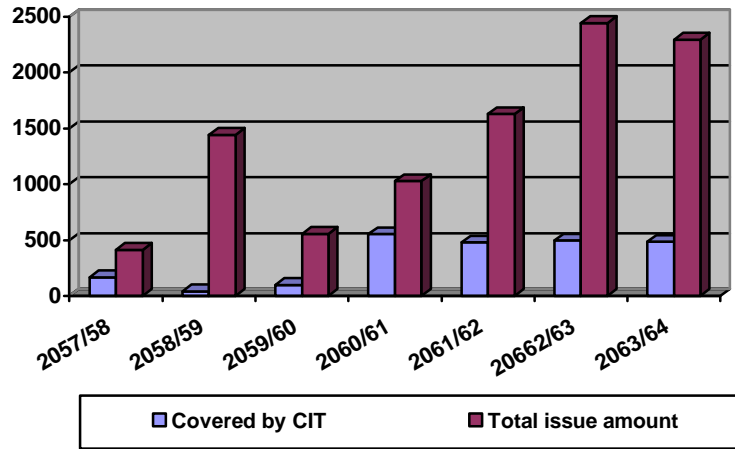


Fig. No.4.5
Issued amount managed by CIT



The above table and the figure show the performance of CIT as an issue manager of different companies during different fiscal year from 2057/58 to 2063/64. During the seven years period, the company has managed to raise Rs. 1884.92 million capitals of 19 different issuing companies. The management of public issue was greatest in the fiscal 2060/61 of total issue amount.

b. Underwriting & syndication of underwriting public issue

Citizen Investment Trust also provided the service of underwriting as well as syndication of underwriting public issue of various companies, which is mentioned in the table although under the merchant banking services Citizen Investment Trust is also providing underwriting services. But now because of legal provision it has stopped underwriting services. Till the date it has underwriters 11 companies which are listed as follows:

**Table No. 4.5
Underwriting of Public Issue by CIT**

S.N.	Issuing Company	No. of	Amt. of	Issue
------	-----------------	--------	---------	-------

		Shares	Underwriting (Rs.)	Manager
1	Necon Air Limited	14000	1400000	CIT
2	Universal Finance & Capital Market	10000	10,00,000	CIT
3	Samjhana Finance Ltd	10000	10,00000	RBB
4	Bank of Kathmandu	50000	50,00000	NCML
5	NECO Insurance	15000	15,00,000	CIT
6	Alliance Insurance	10000	10,00,000	CIT
7	Sagarmatha Insurance	10000	10,00,000	National Finance
8	NIC Bank	30000	30,00,000	NCML
9	Everest Bank Ltd.	50000	50,00,000	NCML
10	Nepal Development Bank Limited	70000	70,00,000	CIT, NMB
11	Development Credit Bank Limited	35000	35,00,000	NMB

(Source: Personal interview with the high level employee of CIT)

From the table, it is clear the CIT has underwriting public issue of 11 companies, which has syndicated underwriting of five companies. The amount of underwriting was ranging from Rs. Ten Lakh to Rs. Seventy Lakhs. Out of 11 underwriting three companies naming samjhana Finance, Alliance Insurance and Universal Finance & Capital Market Limited devolved and company has to accept certain portion of shares as per agreement. CIT is also in pipeline to underwriting ordinary share of NB insurance and Lumbini Bank Limited, and secured debenture of Hotel Blue Star. CIT has also underwriting ordinary share of Nepal Credit & Commerce Bank Limited, which has failed due to some problems.

c. Registrar to share:

CIT, as one of the leading merchant banker is also providing service to registrar. Registrar to share represents to record of shareholders, name transferring process,

holding preliminary and annual general meeting on the behalf of the companies. Under this objective Citizen Investment Trust has provided registrar to share services to share services to the following company.

Table No. 4.6
Registrar to share provided by CIT

S.N.	Name of Companies
1	Alliance Insurance Company
2	Lumbini Bank Ltd.
3	Butwal Powar Company
4	Chilime Hydro Power Company

d. Research and Consultancy Service:

According to study CIT is not engaged in research service. Instead it CIT provides consultancy service in the area of capital market. Such services are available for designing capital structure pricing of security. Corporate acts like manager, acquisition, privatization and other related activities.

e. Portfolio Management:

For the diversification of the risk CIT has not any programme. Study shows that Citizen Investment Trust is not touch with portfolio management services.

f. Mutual Fund:

Citizen Investment Trust is also actively participated in mutual funding. Basically it has started its mutual fund from 20059/060. The detail of the mutual funding is as follows:

Table No. 4.7
Performance of Citizen Unit Scheme (Rs. In Million)

S.N.	Particulars	Fiscal year
------	-------------	-------------

		2059/060	2060/61	2061/62	2062/63	2063/64
1.	Total amt. of units sold	837.5	1003.9	1215.6	1486.3	1702.3
2.	Total amt. of unit repurchased	432.2	536.3	702.5	829.0	1004.1
3.	Investment	414.4	417.0	567.6	657.5	707.8
	a. Government Bond	188.0	182.0	184.6	173.9	92.9
	b. Bank Deposit (fixed)	96.5	92.0	100.0	317.5	441.0
	c. Share/Debenture	15.4	26.5	22.8	26.5	34.3
	d. Loan and Advance	114.5	116.5	260.2	139.6	139.6
4.	Net Income	37.4	36.3	41.9	50.4	48.8
5.	Dividend (%)	8.0	7.0	7.0	7.0	6.25
6.	Number of Unit Holder	9087	9871	2651	2840	2795
	a. Individual	-	-	2579	2747	2686
	b. Institutional	-	-	72	93	109

Sources: SEBO, Annual Report 2063/064

As reported by CIT, by the end of the fiscal year 2006/07 it sold units amounting to Rs1702.3 million and repurchased the units amounting to Rs1004.1 million. By the end of this fiscal year, its total investment is Rs.707.8 million and the profit of the scheme in this fiscal year is Rs48.8 million. The Total number of participants of the scheme reached to 2795 where 2686 are individual & 109 are Institutional.

B. NIDC CAPITAL MARKET LIMITED (NCML)

NIDC Capital Markets was established in 2049 B.S. as a first merchant banker in Nepal. When established, it was only merchant banker with an objective to render the merchant banking services. As a merchant banker, it also provides various services to its clients. The activities of NIDC Capital Market is to act as an issue and sales manager, to provide advice for it and arrange underwriting for public issues, to encourage public participation in the ownership of industrial and commercial institution, collecting medium or long term capital from public for the establishment

and the expansion of industry. Besides these activities, it also has an active role to provide liquidity to securities as a market maker involving itself activity in buying and selling of securities in the secondary market.

a. Issue Management

NIDC Capital Market has handled public issue of various companies. During the nine years of period from fiscal year 2057/058 to 2063/064, it has managed a lot of issues of ordinary shares of various issuing companies, debenture issue of Shri Ram Sugar Mills Ltd., right shares of Bank of Kathmandu Limited and preferential share issue of Birat Shoe Company and Taragoan Regency Hotels Ltd. the brief detail of public issue handled by NIDC Capital Market Limited is shown in the table as follows:

**Table No. 4.8
Public Issue Managed By NIDC Capital Markets Limited**

Fiscal year	Issue by NIDC Capital Markets		Total Issue		% of issue by NCML
	No. of Issues	Issue Amt.(Rs. in million)	No. of Issues	Issue Amt.(Rs. in Million)	
2057/058	3	210.20	9	410.49	51.21
2058/059	3	431.46	12	1441.33	29.94
2059/060	6	183.24	18	556.54	32.93
2060/061	3	366	14	1027.50	35.62
2061/062	3	203.2	14	1626.82	12.49
2062/063	12	1044.7	29	2443.28	42.76
2063/064	13	761.3	34	2295.50	33.17
Total	43	3200.1	130	9801.46	32.65

Source: NIDC Capital Market Ltd & Annual Report 2006/07

Fig. No. 4.6

Issue Number Managed by NIDC Capital Markets Ltd.

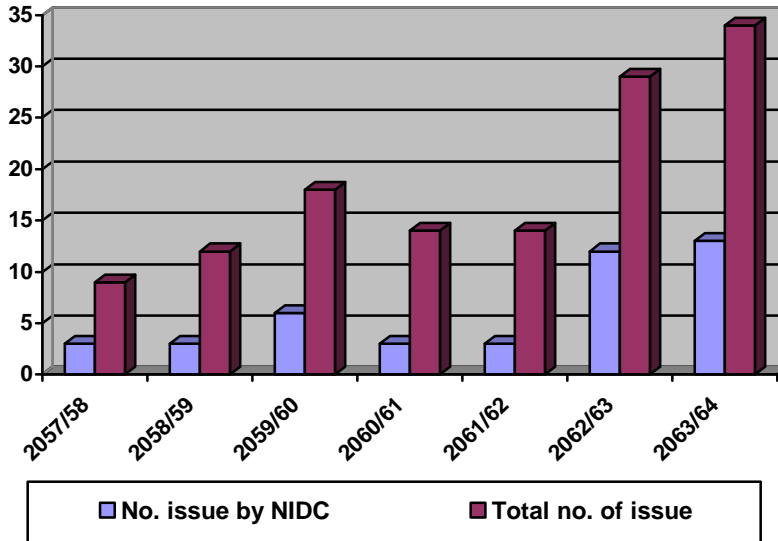
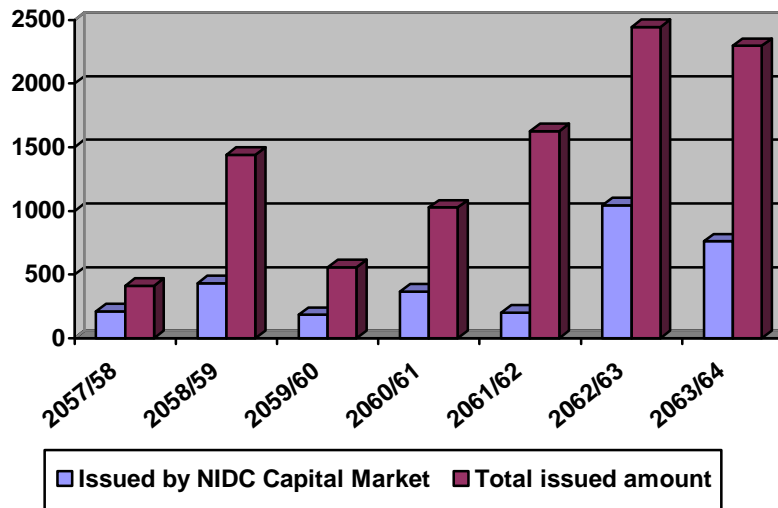


Fig. No. 4.7

Issue Amount Managed by NIDC Capital Markets Ltd.



b. Underwriting

From the establishment of NIDC Capital Market Ltd to till date it has been underwriting around nine organizations public issue. Now because of the legal provision it has stopped its underwriting services. The data of underwriting is in the following table.

Table No. 4.9
Underwriting of Public Issues by NIDC Capital Market Ltd.

S.N.	Issuing companies
1.	Premier Insurance Company Ltd.
2.	Everest Insurance Company Ltd.
3.	Bank of Kathmandu Ltd.
4.	Taragaun Regency Hotel Ltd.
5.	Nepal Industrial and Commercial Bank Ltd.
6.	Oriental Hotel Ltd.
7.	Himalayan Distillery Ltd.
8.	Premier Insurance Company Ltd.
9.	National Hydro Power Company Ltd.

(Sources: Personal interview with high level employee of NIDC Capital Markets Ltd.)

C. Register to the Share

NIDC Capital Market also provides service of registrar to the share service with an objective to provide help in the further activities of public Limited Companies. Its main objective is to maintain the record of shareholders, to fulfill the name transferring process and to assist in holding the Preliminary and annual general meeting on the behalf of the companies. Following are the list of companies to which, NIDC Capital Markets Limited provides services of registrar to share issue.

Table No. 4.10

Registrar to services provided by NIDC Capital Market till date

S.N.	Name of Companies
1	Nepal Industrial and Commercial Bank Ltd.
2	Bank of Kathmandu Ltd.
3	Kumari Bank Ltd.
4	Unilever Nepal Ltd.
5	Life Insurance Corporate (Nepal) Ltd.
6	Randisson Hotel Ltd.
7	Paschimanchal Development Bank Ltd.
8	Leatherage Bansbari Tannery and Shoe Factory Ltd.
9	Agro Nepal Ltd.
10	Sri Bhrikuti Pulp and Paper Nepal Ltd.
11	United Insurance Company Ltd.
12	Birat Shoe Company Ltd.
13	Standard Finance Ltd.
14	Yeti Finance Ltd.
15	Nepal Film Development Company Ltd.
16	NCM Mutual Fund 2050
17	NCM Mutual Fund 2059

d. Mutual Fund:

NIDC Capital Market has also started NCM Mutual Fund from 2050 with approval of Securities Exchange Board of Nepal. The total amount of the mutual fund was 100.00 million. It was an open- ended fund with a par value of Rs. 10 per unit.

Table No. 4.11

Performance of NCM Mutual Fund

(Rs. in Million)

S.N.	Particular	Fiscal Year			
		2060/61	2061/062	2062/063	2063/064
1	Investment (Rs.)	123.41	157.74	210.71	393.4
	a. Share/ Debenture	95.88	126.21	183.53	279.4
	b. Government Bond	10.00	10.00	10.00	10.00
	c. Bank deposit	8.83	16.54	13.68	93.3
2	Net income	9.50	11.47	13.89	23.2
	a. Dividend in share	2.16	1.90	2.82	3.5
	b. Interest in Govt. Bond/Debenture	0.77	0.81	0.81	0.8
	c. Bank Interest	0.61	0.35	0.54	3.9
	d. Income from sale of shares	5.96	8.42	9.71	14.9
3.	Net Assets Value	118.20	144.93	189.14	314.0
4.	Outstanding Unit (in thousands)	10,000	10,000	10,000	10,000
5.	Net Assets Value per Unit (Rs)	11.80	14.49	18.91	31.40
6.	Per Unit Market Price (Rs.)	-	10	11	15
7.	Number of unit holder	2882	2559	2481	2417
	a. Institutional	19	20	20	20
	b. Individual	2863	2539	2461	2397
8.	Dividend	5	5	5	10

(Source: SEBON Annual Report 2063/064 pp44)

Thus NIDC Capital Markets Ltd. total investment of the fund reached to Rs. 393.4 million by the end of the fiscal year 2063/064 and the net asset value (NAV) increase to Rs. 314.0 million. Total of unit holders of the fund as the end of the fiscal year 2063/064 is 2417 consisting of individual and institutional. This fund has been listed in the stock exchange. The market price of each unit at the end of the fiscal year 2063/064 was quoted at Rs. 15 as per the reporting of the NIDC Capital Market Ltd. NAV per unit of the fund is Rs.31.40.

e. Portfolio Management:

The company has managed portfolio of its customer with an objective to provide attractive returns from the deposited amount by buying and selling of securities in fiscal year 2051/052 but it had to leave in next fiscal year due to some problems.

f. Research and Development:

The company has improved this service by analyzing in depth the economic situation of listed companies and has also started to prepare macro economic sector analysis; whereby sector of investment possibilities are researched. These sectors include Textile with analysis on the areas of cotton thread, garments and knitwear as well as tourism.

C. NEPAL MERCHANT BANKING & FINANCE LIMITED (NMB)

NMB commenced business in December 1996. The company is trying to become a leader in the market for financial services and merchant banking activities. NMB is involved in both primary and secondary markets. Under merchant banking activities it performs various activities.

a. Public Issue Management:

NMB has successfully managed Initial Public Offering (IPO) of both common and preferred shares as Lead Managers of different companies. The table shows the detail of public issue handled by NMB.

Table No. 4.12
Public Issue Management by NMB

Fiscal Year	Total Issue Times and Issued by NMB		Total Issue Amount and Covered by NMB (Rs. in Million)	
	Issued by NMB	Total Issue Times	Covered by NMB	Total Issue Amount
2057/058	2	9	56.00	410.49
2058/059	5	16	769.87	1441.33
2059/060	3	18	215.00	556.54
2060/061	6	14	99.00	1027.50
2061/062	6	14	290.41	1626.82
2062/063	10	29	607.5	2443.8
2063/064	12	34	451.9	2295.50
Total	44	134	2489.68	9801.98

(Source: Security Exchange Board of Nepal)

Fig. No.4.8
Issued No. Managed By NMB

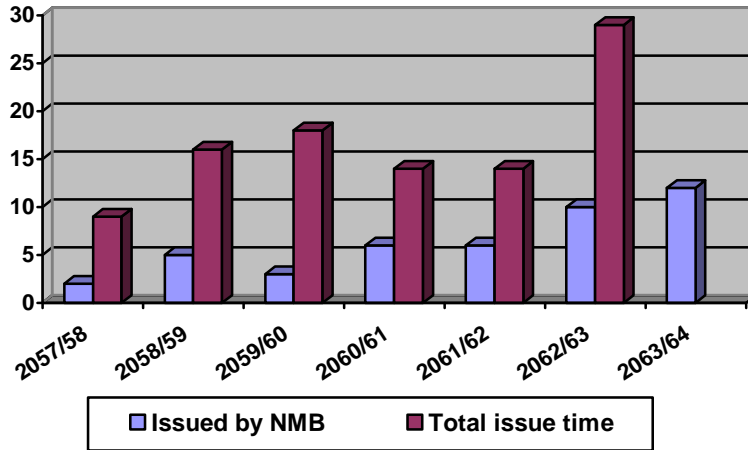
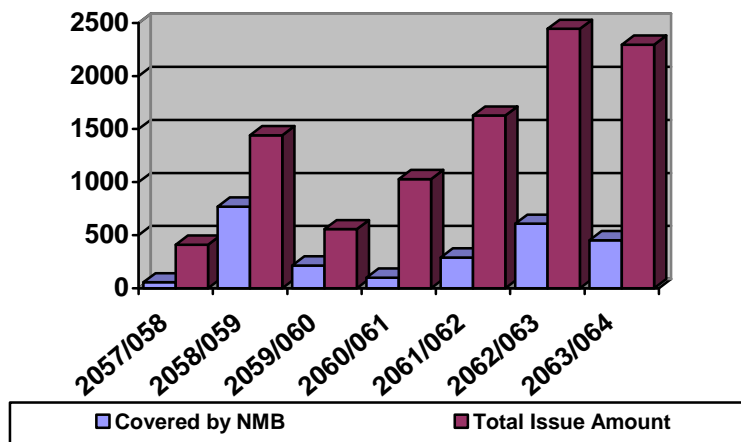


Fig. No.4.9
Issued Amount Managed By NMB



Above the table and figure shows that Nepal Merchant Banking and Finance Ltd. has analyzed its service from fiscal year 2057/058 to 2063/064 B.S. It has provided 44 times of issue management service, which is 32.84 percent of total issue. The issue amount covered by NMB is 2489.68 which is 25.40 percent of total issued amount.

In the context of public issue management it is clear that Nepal Merchant Banking and Finance Company has also leading role. Out of 134 public issue NMB along issue 44 times which is good sign and image in public issue sector. The public issue management trend of NMB is in increasing ratio. In conclusion NMB has been playing significant role in public issue management.

b. Underwriting of Public Issue:

Public issues underwritten by Nepal Merchant Banking & Finance Limited are shown in the table no 12. It has provided underwriting service for only 3 companies.

Table No. 4.13
Underwriting of Public Issue by NMB

S.N.	Issuing company
1.	Nepal Development Bank Ltd
2.	Development Credit Bank Ltd
3.	Prudential Insurance Company Ltd

Source: Personal interview with high level staff of NMB

As shown in table no 12, NMB has underwritten public issue of shares of three issuing companies naming Nepal Development Bank Ltd, Development Credit Bank Ltd, and Development Credit Bank Ltd.

c. Registrar to share Issue

NMB also provides the services to share issue. Basically it has provided the service to commercial bank, development bank and Insurance Company. The detail represents the following table No. 13

Table No. 4.14

Registrar to Share Issue Provided by NMB

S.N.	Name of Company
1.	Nail Bank Limited
2.	Siddhartha Bank Limited
3.	Nirdhan Utthan Bank
4.	Chhimake Bikas Bank
5.	Prudential Insurance Co. Ltd.

d. Mutual Fund

The data is not available about Mutual fund of NMB Ltd.

e. Corporate Counseling

NMB under Corporate Finance Division is primarily also involved in providing necessary project evaluation for NMB itself and its clients. The services of this division range from project analysis to corporate Mergers & Acquisitions to debt finance and Equity finance. It is also involved in consortium financing and project appraisal. This department has prepared detailed feasibility study report of a commercial bank and industrial ventures including for a joint venture project. Further, it has played key roles in arranging consortium financing. Further, this department also played an important role in the preparation of documentation for the privatization bid of Nepal Tea Development Corporation.

f. portfolio management

Under the merchant banking services, portfolio management service is also an important service. But it is not provided by NMB

4.4 Analysis of income from Merchant Banking

Generation of income is the major objective of each and every company without which survival and growth of a company is out of imagination. Income from each and every activity affects the performance of the company. Thus, in this section, it has been tried to

analyze and find out the income from merchant banking activities to the merchant bankers.

A. Merchant Banking Income of Citizen Investment Trust

Citizen Investment Trust is earning income from various merchant banking activities like commission of share issue management, underwriting, registrar to share issue, consultancy, sale of government bond etc. The merchant banking income of Citizen Investment Trust from the fiscal year 2057/058 in comparison to total income is shown in the table no.4.14

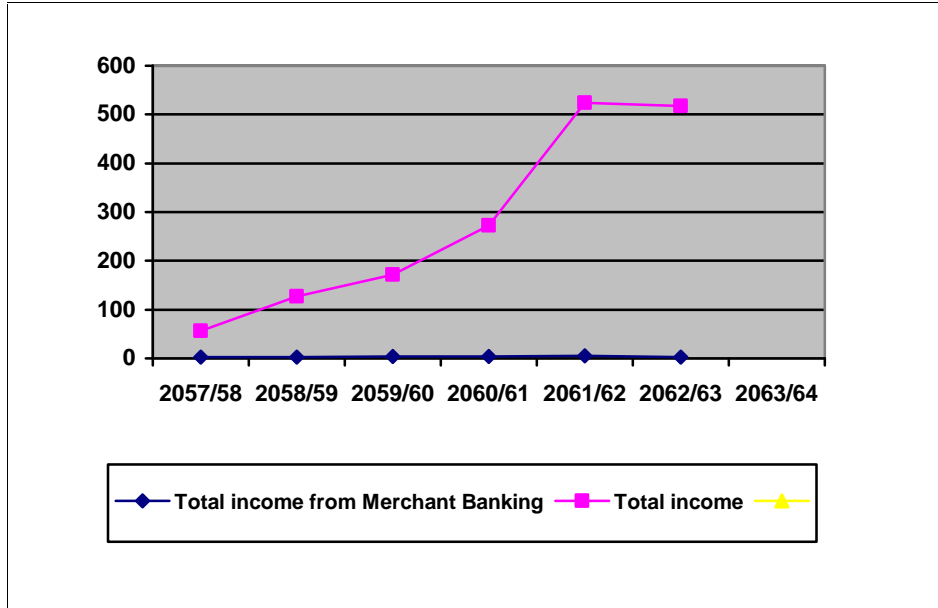
Table no. 4.15
Income Analysis of Citizen Investment Trust

Fiscal year	Merchant Banking Income (Rs. In Million)	Total Income (Rs. In Million)	% of Income from Merchant Banking to Total Income
2057/058	2.165	55.803	03.88
2058/059	3.189	127.548	02.50
2059/060	3.483	171.796	02.03
2060/061	4.432	272.233	01.63
2061/062	4.78	523.50	0.91
2062/063	2.975	518.06	0.57
2063/064	Not available	Not available	Not available

Source: Annual Report and Personal Interview with staff

Fig. No. 4.10

Merchant Banking Income of Citizen Investment Trust



From the above chart and table we come to know that in fiscal year 2061/062 B.S. has highest income from merchant banking service which is Rs.4.78 million where only 0.91% of total income. In fiscal year 2057/058 income from merchant banking service is Rs. 2.165 million which is 03.88% of total income. In fiscal year 2059/60 the amount income of merchant banking services is Rs.3.483 million where only 02.03% of total income. From the available data we can say that Total income from merchant banking services in increasing ratio where percent income covered by it is in decreasing mood.

B. Merchant Banking Income of NIDC Capital Markets Ltd.

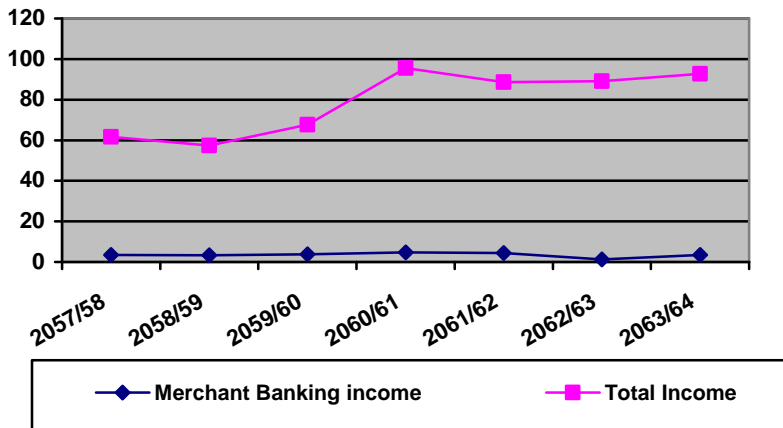
The Merchant Banking Income of NIDC Capital Market in different year is as following.

Table no. 4.16
Income analysis of NIDC Capital Markets Ltd.

Fiscal year	Merchant Banking Income(Rs.InMillion)	Total Income (Rs. In Million)	% of Income from Merchant Banking to Total Income
2057/058	3.435	58.250	5.90
2058/059	3.241	54.148	5.98
2059/060	3.782	63.855	5.923
2060/061	4.757	90.801	5.24
2061/062	4.435	84.12	2.14
2062/063	1.329	87.81	1.51
2063/064	3.53	89.13	3.96

Source: Annual Report and Personal Interview with staff

Fig. No.4.11
Merchant Banking Income of NIDC Capital Markets Ltd.



From the above table and graph we can say that merchant banking activities are also playing significant role in total income increments. In fiscal year 2060/061 B.S. has highest income from merchant banking service which is RS.4.757 million, covered 5.24%. In fiscal year 2062/063, the merchant banking income is 1.329 which is covered 1.51% of total income. Without fiscal year 2062/063, we can see merchant banking income of NIDC Capital Markets is increasing.

C. Merchant Banking Income of Nepal Merchant Banking and Finance Ltd.

Nepal Merchant Banking also market leader of merchant banking services. The merchant banking income of NMB in different year is as following.

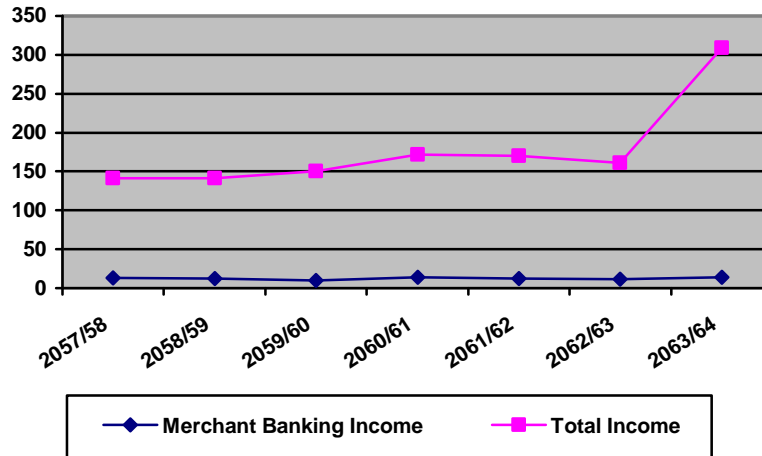
Table no. 4.17
Income Analysis of Nepal Merchant Banking and Finance Ltd.

Fiscal year	Merchant Banking Income (Rs in Million)	Total Income(Rs. In Million)	% of Income from Merchant Banking to Total Income
2057/058	12.887	141.182	9.13
2058/059	12.485	141.343	8.83
2059/060	10.158	150.584	6.75
2060/061	13.725	171.731	8.00
2061/062	12.352	170.032	7.26
2062/063	11.325	160.864	7.04
2063/064	13.85	308.962	4.48

Source: Annual Report and Personal Interview with staff

Fig. No. 4.12

Merchant Banking Income of NMB



From the above table and graph we come to know that Merchant Banking Income in fiscal year 2063/64 is high during 7 years period. In fiscal year 2055/056 the merchant banking income is Rs13.85 million which is 4.48% of total income. Though in fiscal year 2060/061 merchant banking income is Rs.13.725 million but it covers only 8% of total income. In summary we can say that merchant banking income is increasing per year according to total income increments ratio. (In fiscal year 2062/063, we can see the total income as well as merchant banking income of NMB is decreased).

4.5 Comparative Study of Merchant Banking Income

This study has been conducted to study the income generated by various companies performing merchant banking activities comparatively. Here, the data of merchant banking income of CIT for the fiscal year 2063/064 is not available. However, the analysis has been tried to conduct with the data available. The comparative table as well as chart of the merchant banking income is as follows:

Table no. 4.18

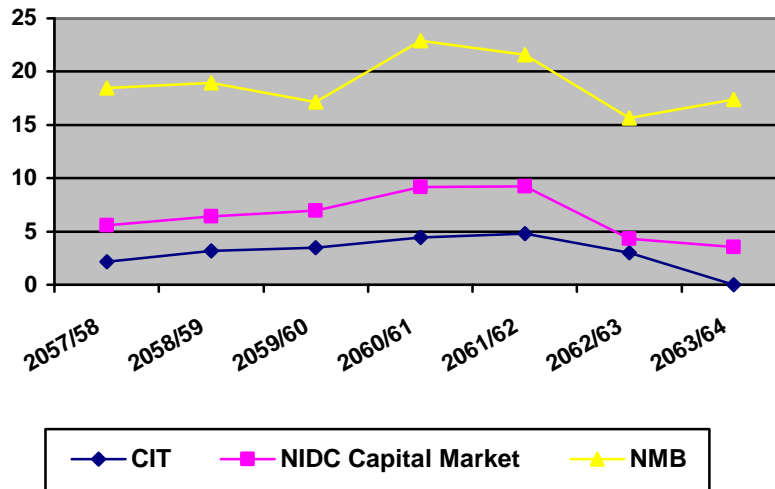
Merchant Banking Income of CIT, NIDC Capital markets Ltd, and NMB

(Rs. In Million)

Fiscal year	CIT	NIDC Capital Market	NMB
2057/058	2.165	3.435	12.887
2058/059	3.189	3.241	12.485
2059/060	3.483	3.782	10.158
2060/061	4.432	4.757	13.725
2061/062	4.78	4.435	12.352
2062/063	2.975	1.329	11.325
2063/064	Not available	3.53	13.85

Fig. No. 4.13

Merchant Banking Income of CIT, NIDC Capital Markets and NMB



From the above table and chart it is clear that the merchant banking income of CIT was in increasing trend till fiscal year 2061/062, which decreased in the fiscal year 2062/063 and I am unable to show the income of CIT in the running year 2063/064. Merchant Banking income of NIDC Capital Markets Ltd has increasing in the fiscal year 2057/058 to 2061/062 and decreasing fiscal year 2062/063. Merchant banking income of NMB not uniform. It has increased to Rs.13.85 million in the fiscal year 2063/64 that decreased to Rs.10.158 millions again in the fiscal year 2059/060.

4.5.1 Test of Consistency of Merchant Banking Income

Here the attempt has been made to test the consistency of merchant banking income. The result of analysis obtained using statistical tools mean (\bar{x}), standard deviation (s.d.), coefficient of variation (c.v.) is given in the table 4.17. The detail of the calculation is given in the Appendix no. 6

Table no. 4.19
Mean, S.D. and C.V. of Merchant Banking Income

Tools	Citizen Investment Trust	NIDC Capital Markets Ltd.	Nepal Merchant Banking & Finance
Mean (\bar{x})	3.504	3.501	12.401
Standard Deviation (s.d.)	0.881	1.064	1.205
Co-efficient of variation(cv)	25.156	30.39	9.717

From the table, it is clear that the mean merchant banking income of Nepal Merchant Banking & Finance Ltd. Is the highest among the three companies, which is Rs.12.401 million. The merchant banking income of Citizen Investment Trust is Rs.3.504 million and that of NIDC Capital Markets Ltd. is 3.501 million. As far as standard deviation of income is concerned the merchant banking income of Citizen Investment Trust has been found less dispersed as compared to other companies. The standard deviation of merchant

banking income is Rs.0.881 million, Rs.1.064 million and Rs.1.205 million respectively of Citizen Investment Trust, NIDC Capital Markets Ltd. And Nepal Merchant Banking & Finance Ltd. Similarly when comparing the variation or the consistency of merchant banking income of three companies, the table shows that NIDC Capital Markets Ltd has high co-efficient of variation to 30.39% . The coefficient of variation of Citizen Investment Trust is 25.156 and that of Nepal Merchant Banking & Finance Ltd. is 9.717%. Which means that the merchant banking income of Nepal Merchant Banking & Finance Ltd. has high consistency while that of NIDC Capital Markets Ltd. has less consistency comparing to other companies.

Above data has been calculated taking 7 years data of NIDC Capital Markets Ltd and NMB from the fiscal year 2057/058 to 2063/064. Six years data of CIT from the fiscal year 2057/058 to 2062/063 is shown. Thus the data of the three companies has again been calculated for the uniformity for six years from the fiscal year 2057/058 to 2062/063. The detail of calculation is shown in Appendix no.7 and the data obtained as such is shown in the table no. 4.18.

Table no. 4.20
Mean, S.D. and C.V. of Merchant Banking Income

Tools	Citizen Investment Trust	NIDC Capital Markets Ltd.	Nepal Merchant Banking & Finance
Mean (x)	3.504	3.497	12.155
Standard Deviation (s.d.)	0.8815	1.1044	1.142
Co-efficient of variation(cv)	25.16	31.582	9.40

The table no. 4.18 shows that the Nepal Merchant Banking & Finance Ltd is earning highest mean income among three, which was Rs.12.155 million against Rs.3.504 million and Rs.3.497 million of Citizen Investment Trust and NIDC Capital Markets Ltd. But standard deviation was least of Citizen Investment Trust. The Co-efficient of variation of Citizen Investment Trust is 25.16 and NIDC Capital Markets Ltd is 31.582 and that of

Nepal Merchant Banking & Finance Ltd is 9.40. Thus keeping six year into consideration, it is found that Nepal Merchant Banking & Finance Ltd is earning highest return while Citizen Investment Trust is bearing least risk from merchant activities among the three companies.

4.6 Presentation and Analysis of Primary Data

Primary data plays the vital role to make the research task meaningful as well as concrete. In the course of availing first hand data, questionnaire analysis, formal and informal interview method have been adopted. Under questionnaire analysis, important questions are set and provided to the related parties to take their opinion about merchant banking in Nepal. A number of questions were put up by means of 50 copies of questionnaire. Questionnaire format has been shown in appendix 1. The questionnaires so collected are related to find out the opinion on merchant banking. The responses from the respondents have been analyzed as follows:

4.6.1 Identification of Institutions Involved in Merchant Banking

To identify the involvement of institutions towards the merchant banking, the study has been found most of respondents stated finance companies. The secondary data also shows the same result.

Table No. 4.21

Institution participating activity in merchant banking function

S.N.	Research Variable	No. of Respondents	%
a.	Bank	5	9.61
b.	Finance Companies	38	73.8
c.	Other Institutions (CIT)	6	11.53
d.	Stock Exchange	3	5.77
	Total	52	100

(Source: Field Survey, Questionnaire no.1)

The table 4.14 shows majority of respondents stated that the finance companies have involved in the merchant banking function. 9.61% of respondents had said the banking sectors has involved in this field as well as 11.53% answered Citizen Investment Trust and remaining 5.77% respondents said not only finance companies but few banks and other institutions are actively participated in merchant banking function in Nepal.

Hypothesis testing

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

Null hypothesis H₀= There are equally preferred the different variable.

Alternative hypothesis H₁ = There is significant different between the different variable.

Calculated Chi-square test $\chi^2 = 64.45$ (Details in Appendix 2)

The tabulated χ^2 at 5% level of significant for 3 d. f. is 7.81. That is $\chi^2_{0.05}(3) = 7.81$. Since calculated value is greater than tabulated value, it is highly significant and null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant different between the respective alternatives. In the other words, all alternatives are not equally preferred.

4.6.2. Sufficiency of Merchant Banking Guidelines

As it has been come to know that merchant banks are under some acts like securities exchange act, company act, finance companies act etc. The question has been raised to find out whether these acts are sufficient for merchant banking functions or not.

Table No. 4.22

Sufficiency of Merchant Banking Regulation

S.N.	Research Variable	No of Respondents	%
a.	Very Sufficient	5	9.62
b.	Sufficient	18	34.62
c.	Insufficient	26	50.00

d.	I don't know	3	5.77
	Total	52	100.00

(Source: Field Survey, Questionnaire no.2)

The above table shows among of 52 respondents, about 50% of respondents answered not sufficient for the regulatory body of merchant banking activity. It means majority has not satisfied about the regulation of the merchant banking activity. 34.62% of respondents replied sufficient while 9.62% of respondents replied very sufficient as well as. Among 52 respondents 3 of them could not decide on this matter.

Hypothesis testing

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

Null hypothesis H_0 = There are equally preferred the different variable.

Alternative hypothesis H_1 = There is significant different between the different variable.

Calculated Chi-square test $\chi^2 = 27.53$ (Details in Appendix 3)

The tabulated χ^2 at 5% level of significant for 3 d. f. is 7.81. That is $\chi^2_{0.05}(3) = 7.81$. Since calculated value is greater than tabulated value, it is highly significant and null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant different between the respective alternatives. In the other words, all alternatives are not equally preferred.

4.6.3 Regulatory Body for Merchant Banking Activity

The question has been asked to find out the regulatory body for merchant banking. Regarding this question, there is different responses are found.

Table No. 4.23

Regulatory Body of Merchant Bankers

S.N.	Research Variable	No of Respondents	%
a.	Nepal Rastra Bank	8	15.38

b.	Security Board	16	30.77
c.	Both NRB and Security Board	24	46.15
d.	Company Act	4	7.70
		52	100

(Source: Field Survey, Questionnaire no.3)

From the above table it is clear that the merchant banks are under some regulatory body like Nepal Rastra Bank, Security Board, and Company Act. The question has been raised which body does regulate the merchant banking most. The table shows 15.38% of respondents replied Nepal Rastra Bank has handle the merchant banks actively as the same way 30.77% of respondents stated Security Board regulate merchant bankers. In this regard among 52 respondents, 24 respondents (46.15%) said both the NRB and Security Board regulate the merchant banking activity and other remaining said Company Act handle the merchant bankers.

4.6.4 Development of Capital Market

Merchant Bankers play a vital role in the development of capital market. Similarly development of capital market also affects the development of merchant banking. Thus they are interrelated with each other. Here, this question is raised to find out the development position of capital market.

Table No. 4.24

Development of Capital Market

S.N.	Research Variable	No of Respondents	%
a.	Fully Developed	-	0.00
b.	Developed	4	7.69
c.	Moderate	19	36.53
d.	underdeveloped	29	55.80
	Total	52	100.

(Source: Field Survey, Questionnaire no.4)

Since the study about the development of capital market, majority respondents replied the development of capital market is underdeveloped yet. 36.53% of respondents replied moderate while only 7.69% of respondents replied that it is developed. In this regard no one has been found said; capital market is fully developed of in Nepal.

4.6.5 Evaluation of Merchant Banking Service in Nepal

About the evaluation of merchant banking service the question has been asked the respondents. Majority of respondents state the service of merchant banking is poor and some of them thought good service of its. But few of them, stated that excellent service of merchant banking in Nepal.

Table No. 4.25
Evaluation of Merchant Banking in Nepal

S.N.	Research Variable	No of Respondents	%
a.	Excellent	6	11.54
b.	Good	22	42.31
C	Poor	24	46.15
	Total	52	100

From the above table we have comes to know about 46.15% of respondents state poor service of merchant banking as well as 42.31% of respondents replied good service of its. As the same way very few respondents responded excellent service as 11.54% only.

4.6.6 Reason for more Public Issue of Securities of Banks and Finance Companies as Compared to Other Sectors

The institution wise public issue analysis reveals that most of the public issues prevailing in our country are of banks and finance companies. The issues of other sectors are very rare. Thus this question has been asked to find out the reason behind more public issue of

bank and finance companies as compared to other sectors. The various responses from various respondents are shown in the following table as:

Table No. 4.26
Reason for more public issue of banks and finance companies

S.N	Research Variable	No. of Respondents	%
a.	SEBON gives most of the approvals to bank and finance companies	5	9.62
b.	Other sectors not want to go to public issue	7	13.46
c.	Bank and finance companies need more capital than other sectors	3	5.77
d.	Banks and finance companies have to go for public issue as per regulatory provision	28	53.85
e.	Public don't want to subscribe for share of other sectors in terms of return	9	17.30
	Total	52	100

(Source: Field Survey, Questionnaire no.5)

From the table no. 18, it has been come to know that the closest reason behind more public issue of bank and finance companies is that banks and finance companies have to go for public issue as per regulatory provision. This answer was supported by 53.85% of respondents. 17.30% of respondents replied those public do not want to subscribe shares of other sectors in terms of return. According to the 13.46% of respondents, other sector does not want to go for public issue. While 5.77% of respondents replied that banks and finance companies need more capital than other sectors.

4.6.7 Practice of Regulatory Provision for Merchant Banking

For the analysis of the practice of regulatory provision for merchant banking, the question has been asked to trace the specific rules, regulations and guidelines that would govern merchant banking activities. Concerning this question, 63.46% of respondents gave

positive answer. According to them, the acts like company act, finance companies act, securities exchange act etc are the regulatory provision that regulates merchant banking activities in Nepal. But only 28.86% of respondents rejected the view regarding availability of specific rules, regulations and guidelines related to the topic while 7.69% of respondents are unknown about it.

Table No. 4.27
Availability of Merchant Banking Regulations

S.N.	Research Variable	No. of viewers	%of Viewers
a.	Yes	33	63.46
b.	No	15	28.86
c.	Don't know	4	7.69
	Total	52	100

(Source: Field Survey, Questionnaire no.6)

4.6.8 Problem in the Performance of Merchant Banking Activities

This question has been raised to find out the concrete reason for the problems in the performance of merchant banking activities as it has been realized the lack of specific merchant bankers and sufficient merchant banking activities in out country. The question is also raised to high-level executives of different fields through questionnaire as well as formal and informal interview. Regarding this question various responses have been obtained through various respondents. The brief descriptions of the responses are as follow.

According to the most of the respondents the most important problem in the performance of merchant banking activities is lack of professionalism. There is less knowledge about merchant banking system. Similarly the manpower in the field of merchant banking are not trained that is why they are not competent. The respondents also complained towards the conservative management style.

The majority of respondents also stated that the problem is also because of underdeveloped capital market, which generates low level of business opportunities and capital tools to investors and merchant bankers.

The respondents also seem to be unsatisfied toward the unclear policies and lack of proper and sufficient regulatory framework that has absence of merchant banking guidelines. They are also not satisfied with unclear status between stock exchange and Security Board of Nepal and lack of co-ordination between different regulatory bodies and merchant banking itself.

The respondents also pointed out towards various problems like volatile political situation, unconscious investors, underdeveloped industries sectors, lack of strategic planning and implementation etc.

4.6.9 Reasons for Availability of very few Merchant Banking Services

According to the respondents the reasons for availability of very few merchant banking services are due to its problems in performance of merchant banking services. According to them merchant banking is in introductory stage in Nepal. That is why there is lack of knowledge among the corporate/ individuals about the merchant banking services.

According to them though it is in its infancy government is also not playing incentive role. There is also lack of proper regulation and specific body to develop capital market and merchant banking. Similarly the respondents pointed out toward the slackness of economic and business activities in the country resulting low volume of business and opportunities and lack of modern technology, research and development related activities.

4.6.10 Improvements Required for Boosting up Merchant Banking Activities in Nepal

More respondents gave a lot of suggestions for the improvements required for boosting up merchant banking activities in Nepal. According to the most of the respondents there should be clear-cut policies, guidelines specifying activities and role of merchant banking by regulatory authority. They create an environment for industrialization in Nepal and also should attract foreign investment in the local market.

Management should have clear business vision, financial discipline and good corporate culture. Level of specialization should be developed in the area of merchant banking and capital market. There should be provision of incentive to investors to invest in capital market and institutions to float their shares and other financial tools in the market. There should maintain transparent accounts by business to win public confidence so as to attract more public scripts for issue.

The respondents also stressed for political stability. Public awareness programs to train more people and create awareness among businessmen about merchant banking activities.

Similarly respondents also gave various suggestions like government should play promotional role for improvement in overall economic condition and open capital market to foreign investors. There should also be proper planning and commitment for development.

4.7 Major Finding of the Study

- Through the term merchant banking has come to emergence in Nepal from few years before, most of the people are found to be unknown about merchant banking and their functions.

- The public issue analysis shows that the public issues of securities are in increasing trend. This trend has been shown that of the importance of merchant bankers and merchant banking activities for capital market development and growth of securities market. As the issue 130 of total numbers are exposed till seven years.
- With the analysis of instrument wise issue, Out of 130 public issues during the fiscal year from 2057/058 to 2063/064, 42.99% of issues were through right shares. The numbers of issues through ordinary shares were 72 companies amounting Rs. 2987.57 millions that covered 30.48% of total issue. After this mostly issued instrument to raise capital was debenture and than preferred shares which were 21.02% and 5.51% respectively.
- As the context of the issue of amount, the finance companies have less amount of issue i.e.9.16% though the number of companies is higher than banks. On the other part, the bank have highest amount of issue rather than finance company as 84.05% amazingly.
- Analysis of the activities of the merchant banking found that merchant banking activities are concentrated on floating the public issues of securities. The underwriting, registrar to the share are secondary for most of the firm and other merchant banking activities like consultancy services, is being performed.
- The study found the activity performance of Citizen Investment Trust (CIT) as a one of the leading merchant banker, is providing services of public issue management, underwriting, registrar to share and consultancy services for designing capital structure, pricing of securities, corporate acts like merger, acquisition, privatization and other related activities. CIT is actively participated in mutual funding. Basically it has started its mutual fund from 2057/058.

- The study of activity performance of Nepal Merchant Banking & Finance Ltd. as a merchant banker reveals that NMB is also providing issue management as major merchant banking services. NMB is providing registrar to share issue service and underwriting services. It is not providing Mutual Fund Services.
- While analysis the activity performance of NIDC Capital Markets Ltd. (NCML) as a merchant banker, NCML is leader issuer, not only public issue but also in the context of underwriting, registrar to share, mutual fund NIDC Capital Markets is leader organization. NCML is also actively participated in mutual funding.
- The Services of underwriting of CIT, NMB, and NCML were stopped since the fiscal year 2062/063 because of Legal Provision.
- Analyzing the merchant banking incomes of the major merchant banks it has been revealed that most of the income of CIT is through public issue management. But the earning from other merchant banking activities like registrar to the issue service, underwriting and consultancy services are not uniform.
- Merchant banking income of Nepal Merchant Banking & Finance Ltd. Is from Rs 10.158 millions to Rs13.85 Millions per year. Thus the Merchant Banking income of NMB is high degree of variance. The merchant banking income of NMB is increasing ratio.
- The comparative study of income from merchant banking of various companies reveals that the merchant banking income of CIT and NCML is increasing. On the other hand NMB is earning high income but we can see in fiscal year 2062/063 they unable to catch above position. But in fiscal year 2063/064 NMB and NCML both can catch income from merchant banking rapidly. I am unable to saw the income of CIT in this year.

- The test of consistency has concluded that the merchant banking income of NMB is more consistent while that of NCML has more variation in income.
- From the analysis of primary data it comes to know that most of the merchant banking functions are performed by finance companies and then by some other companies like bank and other institutions as Manufacturing company, Trading Company Hotels and others. The major companies performing merchant banking activities are CIT, NMB, NIDC, Nepal Finance and Saving Company Ltd, Nepal Sri-Lanka Merchant Bank Ltd, National Finance Co. Ltd., United Finance Ltd., Annapurna Finance Co. Ltd., Cosmic Merchant Banking Ace finance Co. Ltd etc.
- Studying the regulatory provision related to merchant banking activities, about 63.46% of respondents gave positive answer. According to them, the acts like company act, finance companies act, securities exchange act etc are the regulatory provision that regulates merchant banking activities in Nepal. But only 28.86% of respondents rejected the view regarding availability of specific rules, regulations and guidelines related to the topic while 7.69% of respondents are unknown about it.
- The study shows 50% of respondents answered not sufficient for the regulatory body of merchant banking activity. It means majority has not satisfied about the regulation of the merchant banking activity. 34.62% of respondents replied sufficient while 9.62% of respondents replied very sufficient.
- 55.80% of the respondents stated that the development of capital market is underdeveloped yet. 36.53% of respondents replied moderate while only 7.69% of respondents replied that it is developed.
- Studying the view of the respondents regarding the body that has to play the key role in the merchant banking development, 46.15% respondents said that both bodies Nepal Rastra Bank and Securities Exchange Board of Nepal has to play

key role for the development of merchant banking activities.15.38% of respondents replied Nepal Rastra Bank has handle the merchant banks actively as the same way 30.77% of respondents stated Security Board regulate merchant bankers

- The study shows that the closest reason behind more public issue of bank and finance companies is that banks and finance companies have to go for public issue as per regulatory provision. This answer was supported by 53.85% of respondents. 17.30% of respondents replied those public do not want to subscribe shares of other sectors in terms of return. According to the 13.46% of respondents, other sector does not want to go for public issue. While 5.77% of respondents replied that banks and finance companies need more capital than other sectors.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents the summary and conclusion drawn from the analysis of the study and recommendations are also given to correct some aspects regarding improvement of merchant banking in Nepal.

5.1 Summary

Merchant bankers bridge the huge gap between demand of funds by the institutions and supply of untapped public savings. They are the intermediaries for the growth of capital market and one of the major supporting instruments for any ongoing business organization. The objective of the study is to evaluate the performance of merchant banks in Nepal, its significance toward the development of securities industry and to analyze its problems and prospects.

As per the requirement of the study, primary as well as secondary data has used to meet the objective of the study. Secondary data were collected from annual report of Citizen Investment Trust, NIDC Capital Market Ltd, Nepal Merchant Banking and Finance Ltd., Security Exchange Board of Nepal, Non – Bank Financial Statistics of Nepal Rastra Bank, library search, daily newspapers, magazine, bulletin and other journals etc. Questionnaires were distributed and interviews (formal and informal) were also made to gather the information.

Information obtained as such were tabulated and presented as per the requirement of the study. The data obtained are analyzed through different elements like public issue analysis, activity performance of merchant bankers, income analysis, analysis of responses of questionnaire etc. to meet the objective of the study. The various statistical tools and financial tools were also adopted as test methodology.

Before the analysis of selected merchant banks, analysis including and instrument wise public issue has been conducted from the perspective of finding out the significance of merchant banking toward the development of securities industry in Nepal. There have been 130 public issues of different companies amounting Rs.9471046 million from the fiscal year 2057/058 to 2063/064. Out of the total public issue of securities during the period, banks stand first position which is 84.05% of total public issue, 9.16% public issue are made by finance companies. Issue by Insurance companies, manufacturing and processing companies, hotels, and other companies are 0.903, 0.899, 3.059, 1.936 percentage respectively. In the past, fiscal year like 2057/058 to 2061/062, the most preferred instrument is issue of ordinary share .But in recent 2 years the most preferred instrument is issue of Right Share. Out of the total public, 42.99% of issues are through Right Share and 30.48% of issues are through ordinary Share.

As the context of the issue of amount, the finance companies have less amount of issue i.e.9.16% though the number of companies is higher than banks. On the other part, the bank have highest amount of issue rather than finance company as 84.05% amazingly.

To assess the performance of financial institutions in relation to merchant banking activities, the analysis of the selected companies on the basis of secondary as well as primary data has been conducted. Citizen Investment Trust, as a pioneer of merchant banking, provides service of share issue management, underwriting, registrar to share issue and consultancy services. Under share issue management, it has handled 19 issues and raised Rs.2315.92million from the fiscal year 2057/058 to fiscal year2063/64. Citizen Investment Trust has provided underwriting service to 12 companies for various numbers of shares with various amounts.CIT is providing registrar to share service to four company that is Alliance Insurance Company Ltd, Lumbini Bank Ltd, Butwal Power Company and Chilime Hydro Power Company. CIT is also provided consultancy service in the areas of capital market by designing capital structure, pricing of securities, corporate acts like merger acquisition, privatization and other related activities. CIT is

also activity participated in mutual funding. Basically it has started its Mutual Fund from 2000/001.

In the fiscal year 2006/07, Citizen Investment Trust sold units amounting to Rs.1702.32 Million and repurchased units amounting to Rs. 1004.1 Million under Citizen Unit Scheme. The total investment was Rs. 707.8 Million and the profit was Rs. 48.8 million under in Scheme. The total Number of participants of the scheme reached 2795 in the fiscal year 2006/07 the scheme distributed 6.25% dividend to its unit holders.

NIDC Capital Markets Ltd is the first merchant banker in Nepal. It provides services like public issue management, underwriting, registrar to share, NCML started its mutual fund from 1993 to 1994. As analysis of NCML, By the end of the fiscal year 2006/07 total investment reached to Rs. 393.4 million and net assets value (NAV) increase to Rs. 31.40. Total number of unit holders of the fund by the end of the fiscal year2006/07 was 2417 comprising 2397 individuals and 20 institutions. The per unit market price of fund by the end of the fiscal year 2006/07 was 15.00. Under share issue management, it has handled 43 issues and raised Rs.2996.27 million from the fiscal year 2057/058 to fiscal year 2063/064. It had provided underwriting services of 9 issuing companies. It is providing registrar to the share services to 17 various companies.

Nepal Merchant Banking & Finance Ltd, as a merchant banker, provides services of public issue management, underwriting, registrar to share issue and corporate counseling. NMB has been providing this service since the fiscal year 2057/058 under share issue management, It has handled 44 issues and raised to Rs.2489.68 million from the fiscal year 2057/058 to 2063/064. NMB has provided underwriting services to three companies i.e. Nepal Development Bank Ltd. Development credit Bank Ltd, Prudential Insurance company namely Nabil Bank Ltd, Siddhartha Bank Ltd, Nirdhan Utthan Bank Ltd, Chhimake Bikas Bank, Prudential Insurance Co. Ltd.

Income analysis of selected merchant banks reveals that CIT is earning income from share issue management CIT has earned commission from consultancy fee since in fiscal

year 2057/058 while it has earned commission from underwriting and registrar to share issue since 2057/058. But the underwriting services were stopped since the fiscal year 262/063. The percentage of earning from merchant banking to total income is 03.88%, 02.50%, 02.03%, 01.63%, 0.91%, 0.57% respectively from the fiscal year 2057/058 to fiscal year 20623/063. I am unable to show the income from Merchant Banking in fiscal year 2063/64.

NIDC Capital Markets Ltd. is also earning regular income from share issue management. It is earning commission from registrar and underwriting to share issue since 2057/058, but the underwriting services were stopped since the fiscal year 262/063. The percentage of earning from merchant banking to total income is 5090, 5.98, 5.923, 5.24, 2.14, 1.51, 3.96, percentage respectively from the fiscal year 2057/058 to 2063/064.

Nepal Merchant Banking & Finance Ltd. is earning from merchant banking since 2054/055. The merchant banking income was ranging from 10.158 million to 13.85 million. The percentage of earning from merchant banking to total income is 9.13%, 8.83%, 6.75%, 8%, 7.26%, 7.04%, 4.48% respectively from the fiscal year 2057/058 to 2063/064

The test of consistency of merchant banking income of selected companies reveals that CIT has coefficient of variation of 25.156%, the coefficient of variation of NIDC Capital Markets Ltd. is 29.21% and of Nepal Merchant Banking and Finance Ltd. is 9.717%. Similarly the mean income of CIT is Rs. 3.504 million while that of NIDC Capital Markets Ltd is Rs. 3.501 and of Nepal Merchant Banking & Finance Ltd. is Rs. 12.401 million.

From the analysis of response of questionnaire, it comes to know that finance companies are most actively involved in merchant banking functions while other institutions like few banks and other institutions (according to them "CIT") also are performing this activity.

Studying the regulatory provision related to merchant banking activities, about 63.46% of respondents gave positive answer. According to them, the acts like company act, finance companies act, securities exchange act etc are the regulatory provision that regulates merchant banking activities in Nepal. But only 28.86% of respondents rejected the view regarding availability of specific rules, regulations and guidelines related to the topic while 7.69% of respondents are unknown about it. However maximum numbers of respondents are not satisfied with the regulatory provision provided by the guidelines.

According to the majority of the respondents, both Nepal Rastra Bank and Securities Exchange Board of Nepal should regulate the merchant banking function as NRB is governing body of financial institutions on the other hand one of the mission of SEBO is to facilitate the orderly development of a dynamic and competitive capital market.

The respondents also pointed out lots of problems for the performance of merchant banking functions with their reasons. They also suggest remedies so that merchant banking activities can be improved and boosted up in Nepal

5.2. Conclusion

Though merchant banking service is new concept in Nepalese context but these institution has great role in the development of capital market as well as whole economy. The merchant banking is not able to be familiar to many financial institution of Nepal but some existence it has fulfils the need of merchant banking. Although in Nepalese context public issue management, underwriting, Registrar to share mutual funding and consultancy service are major function of it. But instead it whole capital and entrepreneurship development is an important thing.

As merchant banking so many institution are introducing in Nepal but out of them NIDC Capital Markets Ltd, Citizen Investment Trust and Nepal Merchant Banking & Finance Ltd are leader bankers. Those leading organization are actively participated in public issue management, underwriting, mutual funding and Consultancy services. Where they

are not serving like factoring, portfolio management, corporate counseling and other activities. From the detail study of the merchant banking services we come to know that merchant banking income is also in good position. Comparatively Nepal Merchant Banking & Finance Ltd. has earned height among them. It shows that from only merchant services an institution can run easily. In the capital market sector merchant banker provides an important base for the development of industry, commerce and economy. Merchant banking and capital market are interdependent with each other in many aspects. In this regard the analysis of public issue shows that, merchant bankers are also playing a high significant role toward the development of security industry as well capital market in Nepal.

In Nepal merchant banks are providing merchant banking services as their sub function while their prominent function have been found something else like deposit, loan and advance and others. Thus merchant banking activities in Nepal are associated with other transaction of finance companies. Though globally merchant banking is taken to mean everything in financial services and this word is understood to be synonyms with the issue management. And recent year like 2062/63, they start to keep income of merchant banking activities with other activities so it was difficult to separate the earning of merchant banking activities and other activities income.

Legal provision and procedure are also basic and important things for the development of merchant banking environment. About the acts regarding the regulation of merchant banking seems to be insufficient. Though finance company act, commercial bank act, rule and regulation regarding merchant banking. Financial company act permits finance company to sell and purchase the bond issued by this majesty's Government or security issued by other and to act as broker under the security exchange act. However it has not specified the area of function regarding merchant banking. Not only this but other acts are also creating some problems.

In the rapid development of merchant banking in Nepal different things are distributed. Basically merchant banking itself is unknown to most of the public because of insufficient policy and information resulting in low demand of merchant banking services. Another factor is less developed industrialization and marketing activities. Current situation of the country like political instability, economic crises are also creating barriers for the smooth development of merchant banking sector. Regarding the performance of merchant bankers in Nepal is very good. The merchant banking scope is not limited in whole economic development. In conclusion it can be said that merchant banking scope in Nepal is very good.

Because of insufficient information and propaganda merchant banking is still unknown to most of the public resulting in low demand of merchant banking services. It is also not being able to prosper due to the less developed industrialization and financial marketing activities. Thus, in spite of the importance of merchant banking services many of the merchant banking services in our country are still poor.

Although yet, the state is going to be peaceful we hope that all conditions are obtained better. Government committed that it would be the facilitator, motivator for all sectors. So we expect all the sectors as well as merchant banking sectors activities will be growing rapidly further.

5.3 Recommendation

In view of the above facts, objectives and the present day trend of merchant banking, the following recommendations are made to all concerned for consideration and implementation.

First of all namely the merchant banker services should be clear among capital market. Not only in public issue management, underwriting and registrar to share but other activities like portfolio management, project planning venture capital should also initiate.

In Nepalese context merchant banker are diversifying their function to many activities. So that they should try to focus or specialize their services on merchant banking functions rather than making it only a part of their functions. They should also try to provide other merchant banking function instead of sticking on selected merchant banking business.

Secondly for prosperous merchant banking practice in Nepal regularity body should be clear. Here no any specific acts regarding merchant banking are available. Security Exchange Board Nepal, Nepal Rastra Bank and company acts have major governing power but clear power is not specified. So the governing power, rule & regulations should be clear for good merchant banking practice.

Thirdly co-ordination between different sectors is necessary for the conducive environment of merchant banking. There should be continuous co-ordination with regulation like the Security Exchange Board of Nepal, Nepal Rastra Bank and the office of Company Registrar. For the good practice along co-ordination wide range of programmed should be developed. Specific training related to various merchant banking activities should also be invited and involved from the other countries to train and develop the local manpower.

Fourthly prosperous capital market is a basic requirement of merchant banking development. Without the capital market development merchant banker can not do any more. Thus the government should create a easier environment for capital market development. Unit and unless the capital market development there is not good sign for good merchant banking practice in Nepal.

Fifthly the most important thinks for good merchant banking practice is the awareness and knowledge should be shared among the general people. Not only general public and businessman but lots of management students are also unknown toward merchant banker. So different awareness programme relates merchant banker should be initiated. Orientation classes, interaction, knowledgeable program should be increased. Especially

till master level T.U. has not included a single chapter about merchant banker and its services so the T.U. should also include a merchant banking topic.

At last business environment is major source of economy boost up. Without proper business environment there is not a sign of development. The political policy is the fundamental fortune maker of business environment. Proper policies relates with economy should be formulated by the politician Privatizations, liberalization and good finance policies also fundamental sources of good merchant banking environment. About merchant banking services some of the leading merchant banker themselves are not committed toward their objective. So at first merchant banker they committed. Political and economical crisis should be stopped for merchant banking practice on Nepal. If the above recommendations are applied the merchant banking practice in Nepal will be boost up.

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Appendix No. 1

Questionnaire Survey

Dear Sir/ Madam

I am conducting a research in “Merchant Banking in Nepal”. I would appreciate you providing me just few minutes of your busy schedule to answer the questions appearing in the enclosed questionnaire. Each response will be anonymous. I assure you, your responses and views will be kept completely confidential. Your correct information in this regard will help to explore actual scenarios in this context.

So I cordially request you to kindly answer the questions below.

Sincerely yours

Kabita Rimal

(Researcher)

Master of Business Studies

Nepal Commerce Campus

Questions for the survey

1. Which institution do you think is actively participated in Merchant banking function?
 - a. Bank
 - b. Finance Company
 - c. Other Institution
 - d. Stock Exchange.

2. Do you feel that the existing guidelines issued by Security Exchange Board of Nepal sufficient for healthy growth of merchant banking activities?
 - a. Very Sufficient
 - b. Sufficient
 - c. Insufficient
 - d. I don't know

3. Which body in Nepal regulates merchant banking function in Nepal?
 - a. Nepal Rastra Bank
 - b. Security Board
 - c. Both NRB and Security Board
 - d. Company Act

4. What is your opinion toward the capital market in Nepal?
 - a. Fully developed
 - b. Developed
 - c. Moderate
 - d. Underdeveloped

5. How can you evaluate the merchant banking service in Nepal.
 - a. Excellent
 - b. Good
 - c. Poor

6. What is the reason behind more public issue of bank and finance companies as compared to other sector?
 - a. SEBON gives most of the approvals to bank and finance companies
 - b. Other sectors not want to go to public issue
 - c. Bank and finance companies need more capital than other sectors

d. Banks and finance companies have to go for public issue as per regulatory provision

e. Public don't want to subscribe for share of other sectors in terms of return

7. Is there any act and regulatory provisions that is related to merchant banking Nepal ?

a. Yes

b. No

c. Don't know

8. what are the problems in the performance of merchant banking activities?

.....
.....

9. What are the reasons for availability of few merchant banking services in practice in our country?

.....
.....
.....

10. What sort of improvement do you think is necessary to boost up merchant banking activities in Nepal?

.....
.....
.....

Appendix 2

	O (Total)*	$E = \frac{\sum O}{n}$	O-E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
Bank	5	13	-8	64	4.92
Finance Companies	38	13	25	625	48.07
Other institutions(CIT)	6	13	-7	49	3.77
Security Exchange Board	3	13	-10	100	7.69
	O=52	$\sum E = 45$			$\sum \frac{(O - E)^2}{E}$ 64.45

$$\text{Calculated } t^2 = \sum \frac{(O - E)^2}{E} = 64.45$$

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

$$r = 5\%$$

$$\text{Tabulated } t_{0.05}^2(2) = 7.81$$

Appendix 3

	O (Total)*	$E = \frac{\sum O}{n}$	O-E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
Very Sufficient	5	13	-8	64	4.92
Sufficient	18	13	5	25	1.92
Insufficient	26	13	13	169	13
I don't know	3	13	-10	100	7.69
	O=52	$\sum E = 52$			$\sum \frac{(O - E)^2}{E} = 27.53$

$$\text{Calculated } t^2 = \sum \frac{(O - E)^2}{E} = 27.53$$

Degree of freedom = n- 1 = 4-1= 3

r = 5%

Tabulated $t_{0.05}^2(2) = 7.81$

Appendix no. 4

Issue Approved at a Glance (Instrumentwise) Fiscal year 2057/058

Fiscal year	Ordinary share		Right share		Preference share		Debenture		No.
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
2057/058	7	278.7	2	131.79	-	-	-	-	8
2058/059	5	319	5	621.87	1	140	1	360	12
2059/060	14	394.3	4	162.24	-	-	-	-	18
2060/061	10	657.5	3	70	-	-	1	300	14
2061/062	7	377.48	6	949.34	-	-	1	300	14
2062/063	14	579.83	11	1013.45	-	-	4	850	29
2063/064	15	379.90	17	10863.3	1	400	1	250	34
Total	72	2986.71	48	13811.99	2	540	8	2060	129
Percent		15.40		71.20				10.62	

Issue Approved at a Glance (Sectorwise) Fiscal year 2057/058

Fiscal	Bank	Finance	Insurance	Manufacturing	Trading	Hotel
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year	company		company		company		company		company		company	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
2057/058	3	217.21	4	33.08	1	10.20	-	-			1	150
2058/059	5	1069.87	5	148	1	50	1	173.46			-	
2059/060	4	265.54	12	221	2	70	-	-			-	
2060/061	6	861.5	7	146	1	20	-	-			-	
2061/062	7	1339.62	6	147.2	-	-	-	-			-	
2062/063	12	1408.42	14	325.1	1	25	-	-			1	446.451
2063/064	21	11259	13	634.2	-	-	-	-			-	
Total	58	16421.16	61	1654.59	6	175.2	1	173.46			2	596.45
percent		84.65		8.53		0.903		0.894				3.075

Appendix No 5

Fiscal Year 2000/2001

S.N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription
1	Oriental Hotels Ltd	Ordinary Share	150.00	25/07/2000	62
2	Sagarmatha Insurance Co. Ltd	Ordinary Share	10.20	17/08/2000	33
3	Siddhartha Finance Ltd	Ordinary Share	8.00	05/12/2000	17
4	Nepal Merchant Banking & Finance Ltd	Ordinary Share	50.00	15/01/2001	47
5	Alpic Everest Finance Ltd	Ordinary Share	5.00	05/02/2001	42
6	Narayani finance Ltd	Right Share	12.58	28/03/2001	32

7	Nepal Development Bank Ltd	Ordinary Share	48.00	03/07/2001	12
8	Everest Bank Ltd	Right share	119.21	11/07/2001	29
9	Nepal Bangladesh Finance and Leasing Co. Ltd	Ordinary Share	7.50	14/03/2001	27

Fiscal year 2001/2002

S.N.	Issuer	Types of Securities	Issue Amount	Issue Date	Su %
1	Bank of Kathmandu Ltd	Right Share	234.00	31/08/2001	98
2	Himalayan Distillery Ltd.	Ordinary Share	173.46	13/09/2001	10
3	Nepal Housing & Merchant Finance Ltd.	Right Share	15.00	07/01/2002	10
4	Union Finance Co. Ltd	Ordinary Share	24.00	15/01/2002	87
5	Development Credit Bank Ltd	Ordinary Share	48.00	23/02/2002	14
6	Ace Finance Ltd	Right Share	45.00	25/02/2002	10
7	Nepal SBI Bank Ltd	Right Share	287.87	25/03/2002	97
8	NIDC Capital Markets Ltd	Right share	40.00	08/04/2002	95
9	United Finance Ltd	Ordinary Share	24.00	30/05/2002	10
10	Himalayan Bank Ltd	Debenture	360.00	18/06/2002	
11	Nepal Life Insurance Co. Ltd	Ordinary Share	50.00	24/10/2002	75
12	Everest Bank Ltd	Pref. Share	140.00	28/10/2002	14
	Total		1441.33		

Fiscal Year 2002/2003

S.N.	Issuer	Types of Securities	Issue Amount	Issue Date	Su %
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1	International Leasing & Finance Co. Ltd	Ordinary Share	30.00	29/07/2002	21
2	Nirdhan Utthan Bank Ltd	Ordinary Share	30.30	05/08/2002	38
3	Life Insurance Corporation (Nepal) Ltd	Ordinary Share	50.00	05/08/2002	17
4	Nepal Sri Lanka Merchant Bank Ltd	Ordinary Share	40.00	28/08/2002	61
5	Shree Investment & Finance Co. Ltd	Ordinary Share	16.00	02/09/2002	18
6	Gorkha Finance Ltd	Ordinary Share	10.00	15/09/2002	86
7	Janaki Finance Ltd	Ordinary Share	8.00	21/09/2002	15
8	Nepal Investment Bank Ltd	Right share	57.24	27/09/2002	97
9	Central Finance Co. Ltd	Ordinary Share	8.00	15/11/2002	85
10	Nabadurga Finance Co. Ltd	Ordinary Share	8.00	19/12/2002	14
11	Premier Finance Co. Ltd	Ordinary Share	8.00	06/01/2003	10
12	Machhapuchere Bank Ltd	Ordinary Share	165.00	13/01/2003	19
13	Nepal Share Market & Finance Ltd	Right Share	60.00	29/01/2003	85
14	Mahalaxmi Finance Ltd	Right Share	25.00	28/02/2003	
15	N.B. Insurance Co. Ltd	Ordinary Share	20.00	29/04/2003	13
16	People Finance Ltd	Right Share	20.00	03/06/2003	56
17	Butwal Finance Ltd	Ordinary Share	20.00	05/06/2003	80
18	Om Finance Co. Ltd	Ordinary Share	8.00	01/07/2003	16
	Total		556.54		

Fiscal Year 2003/2004

S.N.	Issuer	Types of Securities	Issue Amount	Issue Date	Su %
1	Laxmi Bank Ltd	Ordinary Share	192.50	04/08/2003	25
2	Standard Finance Ltd	Ordinary Share	24.00	07/08/2003	36
3	Aipic Everest Finance Ltd.	Right Share	20.00	04/09/2003	10
4	Nepal Investment Bank Ltd	Debenture	300.00	03/11/2003	10
5	Cosmic Merchant Banking & Finance Ltd	Ordinary Share	24.00	11/11/2003	71

6	Kumari Bank Ltd	Ordinary Share	150.00	18/12/2003	81
7	Siddartha Finance Ltd	Right Share	20.00	09/12/2003	88
8	Fewa Finance Co. Ltd	Ordinary Share	8.00	23/02/2004	23
9	Nepal Credit & Commerce Bank Ltd	Ordinary Share	210.00	31/03/2004	12
10	Prudential Insurance Co. Ltd	Ordinary Share	20.00	14/04/2004	95
11	NB Finance & Leasing Co. Ltd	Right Share	30.00	15/06/2004	66
12	Chhimek Bikas Bank Ltd	Ordinary Share	3.00	03/06/2004	13
13	Pachhimanchal Dev. Bank Ltd	Ordinary Share	6.00	10/06/2004	20
14	Kist Merchant Banking & Finance Ltd	Ordinary Share	20.00	21/06/2004	17
	TOTAL		1027.50		

Fiscal year 2004/2005

S.N.	Issuer	Types of Securities	Issue Amount	Issue Date	Su %
1	Nepal Bangladesh Bank Ltd	Right Share	359.92	16/07/2004	95
2	Lumbini Bank Ltd	Ordinary Share	150.00	26/07/2004	72
3	World Merchant Banking & Fin. Ltd	Ordinary Share	24.00	03/09/2004	96
4	National Hydro Power Co. Ltd	Ordinary Share	140.00	03/09/2004	21
5	Annapurna Finance Ltd	Right Share	20.00	05/11/2004	97
6	Birgunj Finance Ltd	Ordinary Share	24.00	22/11/2004	70
7	Deprise Development Bank Ltd	Ordinary Share	3.48	27/01/2005	25
8	Everest Bank Ltd	Debenture	300.00	20/04/2005	10
9	Nirdhan Utthan Bank Ltd	Right Share	15.00	25/04/2005	65
10	Nepal SBI Bank Ltd	Right Share	215.00	03/05/2005	96
11	Nepal Investment Bank Ltd	Right Share	295.29	13/05/2005	99
12	Everest Finance Ltd	Ordinary Share	8.00	17/05/2005	54
13	Capital Merchant Banking & finance Ltd	Ordinary Share	28.00	06/06/2005	20

14	National Finance Co. Ltd	Right Share	43.20	15/06/2005	97
	TOTAL		1626.82		

Fiscal year 2005/2006

S.N.	Issuer	Types of Securities	Issue Amount	Issue Date	Su on
1	Chilime Hydro Power Co. Ltd	Ordinary Share	237.41	28/08/2005	50
2	Development Credit Bank Ltd	Right Share	80.00	24/08/2005	95
3	Prudential Bitty Santha Ltd	Ordinary Share	24.50	11/09/2005	11
4	Siddhartha Bank Ltd	Ordinary Share	150.00	15/09/2005	18
5	Bank of Kathmandu Ltd	Debenture	200.00	22/09/2005	13
6	Srijana Finance Ltd	Ordinary Share	4.00	22/09/2005	12
7	Kumari Bank Ltd	Right Share	125.00	21/12/2005	15
8	Gandaki Development Financial Institution Ltd	Ordinary Share	15.00	13/01/2006	39
9	Fewa Finance Co. Ltd	Right Share	30.00	18/01/2006	97
10	Business Development Financial Institution Ltd	Ordinary Share	12.00	22/01/2006	21
11	Om Finance Co. Ltd	Right Share	30.00	18/01/2006	99
12	Royal merchant Banking & Finance Ltd	Ordinary Share	17.50	27/02/2006	28
13	Goodwill Finance Ltd	Right Share	25.00	03/03/2006	94
14	Janaki Finance Co. Ltd	Right Share	10.00	15/03/2006	98
15	Central Finance Co. Ltd	Right Share	12.0	26/03/2006	98
16	Taragaun Regency Hotels Ltd	Right Share	446.45	26/03/2006	57
17	Bhajuratna Finance & Saving Co. Ltd	Ordinary Share	10.50	26/03/2006	27
18	Gugheshwori Merchant Banking & Finance Ltd	Ordinary Share	20.00	02/04/2006	21
19	Siddhartha Bikas Bank Ltd	Ordinary Share	20.00	07/05/2006	22
20	IME Financial Institution Ltd	Ordinary Share	17.50	16/05/2006	45
21	Shikar Insurance Co. Ltd	Ordinary Share	25.00	22/05/2006	43
22	Bhrikuti Development Bank Ltd	Ordinary Share	6.42	21/05/2006	21
23	Machhapurchere Bank Ltd	Right Share	165.00	25/05/2006	87
24	Kist Merchant Banking & Finance Ltd	Right Share	50.00	30/05/2006	78

25	Nepal Share Markets & Finance Ltd	Right Share	40.00	04/06/2006	90
26	Nepal Investment Bank Ltd	Debenture	250.00	09/06/2006	100
27	Nepal Industrial & Commercial Bank Ltd	Debenture	200.00	12/06/2006	100
28	Patan Finance Ltd	Ordinary Share	20.00	03/07/2006	110
29	Nepal SBI Bank Ltd	Debenture	200.00	04/07/2006	100
	Total		2443.28		

Fiscal year 2006/2007

S.N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription
1	Pokhara Finance Ltd	Right Share	20.00	20/07/2006	99
2	Narayani Industrial Bikas Bank Ltd	Ordinary Share	6.00	27/07/2006	61
3	Sanima Bikas Ltd	Ordinary Share	96.00	09/08/2006	40
4	Lumbani Bank Ltd	Right Share	100.00	13/08/2006	100
5	Paschimanchal Bikas Bank Ltd	Right Share	28.00	20/08/2006	76
6	Bageshwori Bikas Bank Ltd	Ordinary Share	9.00	27/08/2006	44
7	Alpic Everest Finance Ltd	Right Share	20.00	07/09/2006	96
8	People Finance Ltd	Right Share	40.00	28/09/2006	56
9	Sahayogi Bikas Bank Ltd	Ordinary Share	6.00	10/10/2006	19
10	Chhimek Bikas Bank Ltd	Right Share	20.00	27/10/2006	81
11	Nepal Development Bank Ltd	Right Share	160.00	25/12/2006	54
12	Gorkha Development Bank Ltd	Ordinary Share	96.00	12/01/2006	100
13	Ace Finance Ltd	Right Share	194.00	31/01/2007	99
14	Navadurga Finance Ltd	Right Share	11.00	02/02/2007	99
15	Annapurna Finance Co. Ltd	Right Share	80.00	09/02/2007	99
16	Emporial Financial Institution Ltd	Ordinary Share	19.50	20/02/2007	25
17	Swabalambhan Bikash Bank Ltd	Ordinary Share	6.00	04/03/2007	96
18	Himchuli Bikash Bank Ltd	Ordinary Share	12.00	05/03/2007	13
19	ICFC Financial Institution Ltd	Ordinary Share	24.40	06/05/2007	35
20	Annapurna Bikash Bank Ltd	Ordinary Share	29.40	11/03/2007	21
21	Laxmi Bank Ltd	Right Share	122.00	25/04/2007	98

22	Civil Merchant Financial Institution Ltd	Ordinary Share	20.00	26/04/2007	15
23	Capital Merchant Banking & Finance Ltd	Right Share	84.00	27/04/2007	80
24	Yeti Finance Ltd	Right Share	6.30	29/04/2007	83
25	Business Development Bank Ltd	Right Share	30.00	11/05/2007	10
26	Nepal Express finance Ltd	Ordinary Share	15.00	11/05/2007	78
27	Kist Merchant Banking & Finance ltd	Right Share	100.00	23/05/2007	99
28	Siddertha Bank Ltd	Right Share	100.00	04/06/2007	99
29	Biratlaxmi Bikash Bank Ltd	Ordinary Share	20.00	10/06/2007	13
30	Nepal Investment Bank Ltd	Debenture	250.00	12/06/2007	10
31	Malika Bikash Bank Ltd	Ordinary Share	15.00	15/06/2007	54
32	Lumbani Bank Ltd	Right Share	150.00	19/06/2007	-
33	Excel Development Bank Ltd	Ordinary Share	6.00	24/06/2007	18
34	Everest Bank Ltd	Preferance Share	400.00	04/07/2007	14
	OTAL		2295.50		

Appendix No. 6

Fiscal Year	CIT (X)	NCML((Y)	NMB((Z)	$X - \bar{X}$	$(X - \bar{X})$	$\frac{Y - \bar{Y}}{Y}$	$(Y - \bar{Y})$	$Z - \bar{Z}$	$(Z - \bar{Z})$
2057/0 58	2.165	3.435	12.887	-1.339	1.793	- 0.06 6	0.0043 5	0.48 6	0.236 2
2058/0 59	3.189	3.241	12.485	-0.315	0.0992	-0.26	0.0676	0.08 4	.0070 6
2059/0 60	3.483	3.782	10.185	-0.021	0.0004 41	0.28 1	0.0789 6	- 2.21 6	4.911

2060/0 61	4.432	4.757	13.725	0.928	0.861	1.25 6	1.578	1.32 5	1.753
2061/0 62	4.780	4.435	12.352	1.276	1.628	0.93 4	0.875	- 0.04 9	.0024
2062/0 63	2.975	1.329	11.325	-0.529	0.280	- 2.17 2	4.718	- 1.07 6	1.158
2063/0 64	Not Availa ble	3.53	13.85			0.02 9	.00084 1	1.44 9	2.099
					4.662		7.319		10.16 7

A. For Citizen Investment Trust

a. Calculation of Mean

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{21.024}{6} = 3.504$$

b. Calculation of Standard Deviation

$$\text{Standard deviation } (u) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

$$u = \sqrt{\frac{4.662}{6}}$$

$$= \sqrt{0.777} = 0.881$$

c. Calculation of Co-efficient of Variation

$$\text{Co-efficient of Variation} = \frac{u \times 100}{X} = \frac{0.881 \times 100}{3.504}$$

$$= 25.156$$

B. For NIDC Capital Market

a. Calculation of Mean

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{24.509}{7} = 3.501$$

b. Calculation of Standard Deviation

$$\text{Standard deviation } (u) = \sqrt{\frac{\sum (Y - \bar{Y})^2}{N}}$$

$$u = \sqrt{\frac{7.319}{7}} = \sqrt{1.0456} = 1.0225$$

c. Calculation of Co-efficient of Variation

$$\text{Co-efficient of Variation} = \frac{u \times 100}{Y} = \frac{1.064 \times 100}{3.501}$$

$$= 29.21$$

C. For Nepal Merchant Banking & Finance Limited

a. Calculation of Mean

$$\text{Mean } (\bar{Z}) = \frac{\sum Z}{N} = \frac{86.809}{7} = 12.401$$

b. Calculation of Standard Deviation

$$\begin{aligned} \text{Standard deviation (u)} &= \sqrt{\frac{\sum (Z - \bar{Z})^2}{N}} \\ u &= \sqrt{\frac{10.167}{7}} \\ &= \sqrt{1.452} = 1.205 \end{aligned}$$

c. Calculation of Co-efficient of Variation

$$\begin{aligned} \text{Co-efficient of Variation} &= \frac{u \times 100}{Z} = \frac{1.205 \times 100}{12.401} \\ &= 9.717 \end{aligned}$$

Appendix No. 7

Fiscal year	CIT (X)	NCML (Y)	NMB (Z)	$X - \bar{X}$	$(X - \bar{X})^2$	$\frac{Y}{\bar{Y}}$	$(Y - \bar{Y})$	$Z - \bar{Z}$	$(Z - \bar{Z})^2$
2057/058	2.165	3.435	12.887	-1.339	1.793	-0.066	.00384	0.73	0.536
2058/059	3.189	3.241	12.485	-0.315	0.0992	-0.25	0.0655	0.33	0.1089

						6			
2059/0 60	3.483	3.782	10.185	-0.021	0.0004 41	0.28 5	0.0812 25	- 1.99 7	3.988
2060/0 61	4.432	4.757	13.725	0.928	0.861	1.26	1.5876	1.57	2.4649
2061/0 62	4.780	4.435	12.352	1.276	1.628	0.93 8	0.8798	0.19 7	0.0388
2062/0 63	2.975	1.329	11.325	-0.529	0.280	- 2.16 8	4.7002	- 0.83	0.6889
Total 4	21.02	20.979	72.932		4.662		7.3183		7.825

A. For Citizen Investment Trust

c. Calculation of Mean

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{21.024}{6} = 3.504$$

b. Calculation of Standard Deviation

$$\begin{aligned} \text{Standard deviation (u)} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ u &= \sqrt{\frac{4.662}{6}} \\ &= \sqrt{0.777} = 0.8815 \end{aligned}$$

c. Calculation of Co-efficient of Variation

$$\begin{aligned} \text{Co-efficient of Variation} &= \frac{u \times 100}{X} = \frac{0.8815 \times 100}{3.504} \\ &= 25.156 \end{aligned}$$

B. For NIDC Capital Market

a. Calculation of Mean

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{20.979}{6} = 3.497$$

b. Calculation of Standard Deviation

$$\begin{aligned} \text{Standard deviation } (u) &= \sqrt{\frac{\sum (Y - \bar{Y})^2}{N}} \\ u &= \sqrt{\frac{7.3183}{6}} \\ &= \sqrt{1.2197} = 1.1044 \end{aligned}$$

c. Calculation of Co-efficient of Variation

$$\begin{aligned} \text{Co-efficient of Variation} &= \frac{u \times 100}{Y} = \frac{1.1044 \times 100}{3.497} \\ &= 31.582 \end{aligned}$$

D. For Nepal Merchant Banking & Finance Limited

a. Calculation of Mean

$$\text{Mean } (\bar{Z}) = \frac{\sum Z}{N} = \frac{72.932}{6} = 12.155$$

b. Calculation of Standard Deviation

$$\begin{aligned}\text{Standard deviation (u)} &= \sqrt{\frac{\sum (Z - \bar{Z})^2}{N}} \\ &= \sqrt{\frac{7.825}{6}} \\ &= \sqrt{1.3042} = 1.142\end{aligned}$$

c. Calculation of Co-efficient of Variation

$$\begin{aligned}\text{Co-efficient of Variation} &= \frac{u \times 100}{Z} = \frac{1.142 \times 100}{12.155} \\ &= 9.40\end{aligned}$$