

PROCESS AND PRACTICES OF INITIAL PUBLIC OFFERING IN NEPAL

A THESIS

Submitted By

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VIVA-VOCE SHEET

We have conducted a Viva-Voce examination of the thesis

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And found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirements of the Master's Degree of Business Studies (MBS).

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I hereby declare that the work reported in thesis entitled “Process and Practices of Initial Public Offering in Nepal” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of the requirements of the Master’s Degree of Business Studies (MBS) under the guidance of Devendra Devkota and Madan Kumar Luitel, lecturer of Nepal commerce campus.

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ABBREVIATIONS

AFCL	=	Ace Finance Co. Ltd.
AGM	=	Annual General Meeting
B.S.	=	Bikram Sambat
CFO	=	Chief Financial Officer
CIT	=	Citizen Investment Trust
Co.	=	Company
CRO	=	Company's Registrar Office
FY	=	Fiscal Year
GDP	=	Gross Domestic Production
IPO	=	Initial Public Offering
Ltd.	=	Limited
NCC	=	Nepal Credit and Commerce Bank Ltd.
NCML	=	NIDC Capital Market Ltd.
NEPSE	=	Nepal Stock Exchange
NFCL	=	National Finance Co. Ltd.
NEFISCO	=	Nepal Finance and Saving Co.
NEFISCL	=	Nepal Finance and Saving Co. Ltd.
NI	=	National Income
NIDC	=	Nepal Industrial Development Corporation
NMBL	=	Nepal Merchant Banking and Finance Ltd.
NRB	=	Nepal Rasta Bank
NSMCL	=	Nepal Share Markets & Finance Co. Ltd.
OTC	=	Over- The –Counter
Pref.	=	Preference
SAP	=	Seven Party Alliance
SDC	=	Securities Data Collection
SEC	=	Security Exchange Center

SEBO	=	Security Board
SEBON	=	Security Board of Nepal
SMC	=	Securities Marketing Centre
SWOT	=	Strength, Weakness, Opportunities & Threat
TU	=	Tribhuvan University
UFL	=	United Finance Limited
Vol.	=	Volume

CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Finance is the important pre-requisite for establishing and developing any business organization. Finance helps to bring together all factors of production in industrial unit. Therefore financing is a critical element for success of a business. In the absence of adequate finance, even the business having high potentiality may fail. Financial decision impacts on the long range. Financial strategies of the firm there by putting affect on the value of the firm. Financial institutions provide the requisite funds to the business firms. Therefore, financial institutions in the economy play a crucial role in the process of economic growth of the country.

For the development of a country, economic development is the major requisite. For economic development; financial sector plays a very important role, where they collect funds from customers by paying some percent interest it to large industries and other business sector by taking some percent interest. The participation of private financial institutions play even more important role for the economic development. Beside the economic sector, social culture, industrial and technology sector are also should be strong for the development and progress of a country.

Since, this is the era of globalization; rapid development in information technology and the advancement in transportation facilities have made the world as narrow as a village. The present world economy has been more competitive and complicated due to globalization of economies and market. Every sort of change occurring in one sector of the world affects the other. Healthy economy is dependent on efficient transfer of funds from people who are not savers to firms and individuals who need capital. Without efficient transfer the economy simply cannot function. Economic efficiency is simply impossible without a good system for allocating capital within the economy. Nepal has

predominantly a subsistent agricultural economy, which contributes about 40% of Gross Domestic Product (GDP) and provides employment to more than 80% of the economically active population.

Investment means the sacrifice of current rupees for the future rupees in which two different attributes are generally involved i.e. time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if any and the magnitude it's generally uncertain. In some cases the element of time predominates (for example government bonds). In other cases risk is the dominant attribute (for example call options on common stocks). In yet others, both time and risk are important (for example shares of common stocks).

1.1.1 Introduction to Sample Companies

(a) NIDC Capital Markets Ltd.

NIDC Capital Markets Ltd. (NCML) was established under the Finance Company's Act, 2042 under the initiative of Nepal Industrial Development Corporation along with the participation of other institutions such as National Life & General Insurance, National Productivity, Rastriya Beema Sansthan, Rastriya Banijaya Bank, Nabil Bank, and Nepal Red Cross & Provident Fund. It was registered with the Company Registrar office on 1-10-2049 & commenced its operation from 28-10-2049.

NCML is the First Company to undertake merchant banking activity in Nepal. It has played an instrumental role in introducing various companies to the general public through initial public offerings (IPO). By providing services such as Registrar to shares, issuance of securities and underwriting and investment management, NCML is “the pioneer” in strengthening the transactions of the stock exchange by way of efficient transfer of title of shares.

(b) Nepal Finance Co. Ltd.

Nepal Finance CO. Ltd. (NEFISCO) is the First Finance Company of Private Sector in Nepal stabilized in 2048 B.S. Till then NEFISCO has been known as the most mature finance company in Nepal providing its products among the NEFISCO clients.

NEFISCO, as the trend setter in the market has the initiation of innovating some of the very first products launched in Nepal like hire purchase, margin lending which become very famous later on and has been a synonym in the market nowadays.

NEFISCO, as a lending finance has its some of the most advance and technically developed deposit schemes with various kinds of account which has been very popular for many years and adopted very keenly in the market.

NEFISCO, as a merchant bank for the last ten years is now been a leading merchant bank, serving its various kinds of merchant bank service to many of its clients.

(c) ACE Development Bank Ltd.

ACE Development Bank Ltd. was founded in August 1995 as Ace Finance Company Ltd. and was upgraded to Ace Development Bank Ltd; a fully fledged category “B” development bank in 2007. The bank is providing services such as Registrar to shares, issuance of securities and underwriting and investment management

(d) NMB Bank Ltd.

NMB Bank Limited (NMB) is the first commercial bank of Nepal that has been able to upgrade from a Finance Company to full- fledged Commercial Bank. Nepal Merchant Banking and Finance Ltd., the erstwhile name of the institution, was amongst the leading financial institutions in its category till May 2008 when the transformation process for the up gradation was complete and changed its name to NMB Bank Limited. The bank provides the merchant banking services such as Registrar to shares, issuance of securities and underwriting and investment management.

(e) Citizen Investment Trust (Nagarik Lagani Kosh)

Citizen Investment Trust (Nagarik Lagani Kosh) was incorporated in March 18, 1991 (Chaitra 4, 2047 B.S.) under the Citizen Investment Trust Act, 1990. CIT formally started its activities since January 15, 1992 (Magh 1, 2048 B.S.). The trust has been functioning on the basis of the Citizen Investment Trust management By – Laws, 1991 which was

prepared under the Citizen Investment Trust Act; 1990. It is only an organization which is actively being operated as an “Investment Trust” through the country. A pioneer intuition in carrying out the Unit Trust Schemes and various kinds of voluntary retirement schemes (Pension funds, Gratuity funds etc) on the basis of fully funded and individual account. CIT also provides the services such as Register to securities and issuance of securities.

(f) United Finance Limited (UFL)

United Finance Limited is a leading Consumer Finance Company in Nepal with excellent asset quality and strong growth potential. The company, promoted by the Chaudhary Group - the largest conglomerate in Nepal was established in 1992 as per the company act of Nepal.

The main objective of the company is to mobilize scattered savings into the consumer financing sector. The major promoters and shareholders of the company are the Chaudhary Group and Morang Auto Works. These groups among themselves hold 60% of the shares in the company with the remaining balance of 40% shares held by the general public.

The shares of the company are actively traded at the Nepal Stock Exchange (NEPSE) and have been categorized in Category “A” by NEPSE for the last Five years. The company also provides the merchant banking services as Register to securities, issuance of securities underwriting and investment management. The company operates from its Head Office in Durbar Marg, Kathmandu.

(g) National Finance Limited

National Finance Ltd. was incorporated on August 30th 1992. Core business of the company is in the area of Hire Purchase Loan, Industrial Fixed and Working Capital Loan Security Finance, Trading Loans, Housing Loan etc. the company has been promoted by various organizations and professionals like Salt Trading Corporation Ltd.,

Nepal Vegetable Ghee Industries Ltd etc. the company also facilitates to register to Securities and Issuance of Securities.

(h) Nepal Share Markets and Finance Ltd

Nepal Share Markets and Finance Ltd. is a public limited finance company which is in the process of upgrading itself to National level commercial bank in near future. The company is promoted by a group of highly committed and innovative businessman and managed by a group of well experienced professional managers, along with a young energetic staff.

The company has emerged in the Nepalese economy with a broad objective to enhance the growth rate of industry and commerce for the economic benefit of the general public and up lift of their living standards.

The company also facilitates to register to securities, issuance of securities, underwriting and investment management.

1.1.2 Provision of SEBON for IPO

Prior to the establishment Securities Ordinance 2005, companies were required to get approval of their prospectus from Company Registrar's Office (CRO) and then to receive approval for the Securities Board of Nepal (SEBON) in accordance with Securities Act, 2007 and the Securities Ordinance, 2005. This new ordinance which came into effect since September, 23, 2005, has incorporated a provision that requires the public companies to register with the SEBON all securities before their issuance. The ordinance also made mandatory for issuing companies to prepare prospectus, and publish it for the public after getting SEBON's approval.

1.2 Focus of the Study

The study mainly focuses on the historical background of initial public offering in Nepal. It also focuses on provisions are available toward the IPO process in our country. How the companies issue shares? What process is followed by the companies in practices?

Which act regulates the IPO process and practices? It also focuses on the distribution process of IPO. It also centers performance of the merchant bankers.

1.3 Statements of the Problems

Still more than half of Nepalese citizens are under the line of literacy. And among the literate ones as well maximum do know nothing about the practice of stocks. They do not know what the securities mean at all. How can we expect them to invest in the securities? And even among the aware people there is still lack of confidence level. They do not want to take risk. In developing country like Nepal, IPO is still new phenomenon.

For the individual investors IPO can be a risky investment. It is hard to predict what the stock will do on its initial day of trading and in the near future because there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, which are subject to additional uncertainty regarding their future values. But in recent trend, the investors are investing in the IPO many more than the issue. The reason for this is that only limited investors are applying for the IPO by using other citizenship certificate. Due to the uneducated people are giving their power of attorney to other for IPO, which affect the financial system badly. These people are creating an artificial crisis, which in turn, the share price is more than their book value. To control this activity, SEBON is updating the criteria required for applying IPO, in order to make the IPO transparent.

Among them, the latest updated criteria is that the investor should disclose the banking detail if he wants to apply for more than Rs. 10,000; the investor should be present while submitting the form along with the original citizenship certificate; the issuing company must give the interest for the applied money during the period between applying date and allotment date; the issue manager must give the account payee cheque while refunding the money for applying more than Rs. 10,000 and the issue manager must allot the share within 45 days.

The problem towards which this study is directed is to identify how is the primary market growing in Nepal, how are the issue managers performing in IPO, generally what an investor expects from his or her investment, how to invest in IPO and how to manage fund for IPO etc.

1.4 Objectives of the Study

This study focuses on the process and practices of the IPO in Nepal. The specific objectives of the study are as follows:-

1. To study and review of IPO process and practices in Nepalese capital market.
2. To identify the contribution of IPO in capital market and national revenue.
3. To analysis the trend of IPOs and financial development in Nepal.
4. To suggest and recommendation for the further development of IPO process.

1.5 Significance of the Study

This study seem to be helpful to the prospective investors and the organization in the field of public offering as there is still lack of study regarding IPO in Nepal. This study will assist in the formulation of policy and will assist the policy makers to get the practical knowledge of existing rules and regulations.

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

This study will be significant to analyze the legal provision, possibilities, problems and prospects of IPO in Nepal. The study will also helpful to provide significant knowledge to the related companies and investors.

1.6 Limitations of the Study

This study (Process and Practices of Initial Public Offering in Nepal) has some limitations as well. They are as follows;

-) This study takes the secondary data also, so the accuracy of research depends upon the reliability of the data.
-) For the primary data analysis only 120 respondents are taken around the Kathmandu valley.
-) The data are used only up to 2010.
-) This study is done from student's limited resources.
-) Since this study is only for the purpose of fulfillment of the master degree, stipulated time and resources are the limitations for the study.

1.7 Organization of the study

Chapter -1 Introduction

This chapter contains introductory part. It describes the general background, of the study, statement of the problems, objectives, significance, limitation and organization of the study.

Chapter -2 Review of the Literature

This chapter contains brief review of past research works and studies. It also describes the conceptual framework of the subject matter. Review of the literature is done after the selection of topic to develop concepts and ideas about the selected topic by reviewing all the relevant materials.

Chapter -3 Research Methodology

This chapter explains about the research design, methods to collect the data, the sample size used and about the methods used to analyze the data. In other words it describes the methods and processes applied in the entire aspect of the study.

Chapter -4 Data Presentation and Analysis

This chapter presents the collected data in tabular form and in different pictures, so that it could be easy to analyze them. On the basis of secondary data and primary data collected from the published materials from different organization like SEBON, Economy Survey and other relevant sources, both financial and statistical tools were used to perform the detail analysis as required by the study.

Chapter -5 Summary, Conclusion and Recommendations

This chapter finally summarizes the study in few paragraphs and tries to conclude the whole study; that is the result of the research. And finally depending upon the summary and conclusion and recommendations has been given.

CHAPTER-II

REVIEW OF LITRETURE

Review of literature is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literatures helps the researcher to develop through understanding and insight into previous research works that relates to the present studies. It is also a way to avoid investigations problems that have already been definitely answered. Thus a literature review is the process of locating, obtaining reading and evaluating the research literature in the area of the student's interest. "The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know" (Wolf and Panta, 2005).

-) What research has been done in the subject?
-) What others have been done in the study?
-) What others have been advanced?
-) What the approach taken by the other researchers?
-) Area of agreement and disagreement.
-) Whether there are gaps that can fill through the purposed research.

This section of study reviews the related research works. It is divided into two sections: conceptual review of related studies and review of related studies. Conceptual reviews identifies the components and ingredients that formed the foundation of the study whereas review of related studies draws excerpts from the number of research works carried abroad and within the country, illustrating various facts of the subject matter.

2.1 Conceptual Review

It presents the core theoretical concept of IPO, IPO as a capital market mechanism, IPO and its theoretical aspects, historical background of capital market development in Nepal and procedural aspects of IPO practices in Nepal etc.

2.1.1 Meaning and Concept of IPO

Public issues can be classified into Initial Public offerings and further public offerings. In a public offering, the issuer makes an offer for new investors to enter its shareholding family. The issuer company makes detailed disclosures as per the DIP guidelines in its offer document and offers it for subscription. Initial Public Offering (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities.

IPO is new shares Offered to the public in the Primary Market. The first time the company is traded on the stock exchange. A prospectus is issued to read about its risk before investing. IPO is a company's first sale of stock to the public. Securities offered in an IPO are often, but not always, those of young, small companies seeking outside equity capital and a public market for their stock. Investors purchasing stock in IPOs generally must be prepared to accept very large risks for the possibility of large gains. Sometimes, just before the IPO is launched, Existing share Holders get very liberal bonus issues as a reward for their faith in risking money when the project was new.

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

2.1.2 Advantages and Disadvantages of IPO

The following are the advantages of IPO;

No cost of capital:

It does not need to pay interest on the capital raised from Public. Even it doesn't need to repay the capital. Only in case of liquidation/bankruptcy it needs to pay the residual amount after paying bank loans, debentures, preferential shares etc.

Huge amounts can be raised:

It can raise huge amount of capital by going to public which may not be possible otherwise.

Brand Value:

Company's brand value will get increased because people come to know about the company very well.

Correct Valuation:

Since the share price reflects the company's financial healthiness, it would become easy to arrive at a price in case of mergers and acquisitions.

The following are the disadvantages of Public limited company;

Disclosure of information:

Once a company becomes public it has to disclose so much information to public on regular intervals. This includes share holding pattern, quarterly and annual financial statements, profiles of directors etc. Because of this restriction companies will always be under pressure to perform and show profits in every quarter. This, sometimes, doesn't allow the management to take bold steps which may yield long term benefits but less profits in short term.

We have seen some companies in recent times going bankruptcy because the share prices fell down as the investors' scrutiny increased a lot. Some of them would have come out of this situation if they weren't public limited companies.

Decisions take time:

Implementation of any key decision is subjected to the approval by the board of directors elected by share holders. This process may take more time.

Cost of IPO:

The cost of the process is very high, though it's one time expenditure. The investment banker/underwriter charges heavily increase.

2.1.3 Reason for IPO

Of course obtaining required capital from public is the innermost reason to go for IPO but often it is not the only one. If the company the private firm is successful, usually the owners will want to take the company public with the sale of securities to outsider. "Through IPO, the founder simply wants to establish a value and liquidity for the stock" (Van Horn, 2002). Thus, firms go for IPO not only to generate capital but also to establish value and develop liquid market for its stock.

Similarly, the firm with major investment plans and leverage gaining access to a non-bank source of finance is a benefit of going public. "In this regard to reduce debt and increase investment with, lower cost firms are interested to go public. Hence, when interest rates are high, companies particularly those concerned by cost finds it reasonable to go for IPO" (Rajan, 1992).

“In addition, if diversification were important motive in the IPO decision, than riskier companies would be more likely to go public. Thus, IPO incidence may vary by industry. At the same time, firms recognizing that listed companies in their industry are overvalued have an incentive to go public” (Ritter, 1994). Hence, sharing risk inherent in the business and cashing on overvalued issue could also be the reason to go for IPO.

Hence, it could be concluded that raising capital is not the only reason for firms to go for IPO. Whatever is the reason but it could be asserted the IPOs play an important part in capital mobilization and renders positive influence on overall development of capital market.

2.1.4 Good Methods for Analyzing IPOs

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

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

If you're lucky enough to have a good relationship with your broker, you may be able to purchase oversubscribed new issues before other clients. These tend to appreciate considerably in price as soon as they become available on the market because demand for these issues is higher than supply, the price of oversubscribed IPOs tends to increase until supply and demand come into equilibrium. If you're an investor who doesn't get the first right to buy new issues, there's still an opportunity to make money, but it involves doing a substantial amount of work analyzing the issuing companies. Here are some points that should be evaluated when looking at a new issue:

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

This information and more should be found in the company's S-1 statement, which is required reading for an IPO analyst. After reading the company's S-1, you should have a pretty good understanding of the characteristics of the business and the operations at the company. Given these characteristics, find out what you believe to be a reasonable valuation for the company. Divide this number by the number of shares on offer to find out what's a reasonable price for the stock. Other valuation strategies could include comparing the new issue to similar companies that are already listed on an exchange to determine whether or not the IPO price is justified.

2.1.5 Historical Development of Securities Markets in Nepal

The history of securities markets began with the flotation of shares to the general public by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. However, the development of securities markets could not be a national policy for a long time. The then industrial policy of Nepal led to the development of securities markets with the establishment of Securities Marketing Centre (SMC) in 1976. Before the establishment of SMC, there were no institutional arrangements to undertake and to manage the new issues of securities. Initial Public Offerings (IPOs) had to be made as per the provision of Companies Act, 1936, which were not adequate and relevant. The Act had not even included preference share as corporate security. It was recognized as corporate security only by Companies Act, 1964 (SEBON, 2005).

SMC started secondary trading of securities in 1981, which was restricted to government bonds. Till 1983, the concept of well-structured secondary market had not evolved in Nepal. No separate Act existed to regulate the trading of securities. The Securities Exchange Act, 1983 was enacted in 1983. The Act restricted the exchange of unlisted securities. The SMC was renamed Securities Exchange Centre (SEC) in 1984. The SEC was the only institution at that time managing and operating primary and secondary markets of long-term government and corporate securities.

A need to develop different institutional mechanisms relating to securities market was strongly felt to avoid potential conflict of interest between the services provided. The first amendment in the Securities Exchange Act, 1983 in 1993 paved the way for the restructuring of securities market in Nepal, which led to the establishment of Securities Board of Nepal (SEBO) in 1993 with a mandate to regulate and develop the securities markets. SEBO started to register securities and grant approval for issuing securities to the public in 1993. The first amendment in the Act also led to conversion of SEC into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with the objective of operating and managing secondary transactions of securities. The initial efforts led to the opening of a full-fledged stock exchange in January 13, 1994. The second amendment in Securities Exchange Act, 1983 was made in 1997. This amendment made provision for registering

securities businesspersons in SEBO. As per the provision of the second amendment, SEBO provided licenses to the securities businesspersons in 1997. The amendment made mandatory provisions for the listed companies to submit annual and semi-annual reports to SEBO. This amendment also required securities businesspersons to submit annual reports incorporating the securities transactions carried out by them to SEBO.

Presently, there are 23 stock brokers, two securities dealers, seventeen issue managers (renewed 8 and provided licenses 9) and one stock exchange and 171 listed companies (23 commercial banks, 36 development banks, 62 finance companies, 4 hotels, 18 manufacturing companies, 4 trade related companies 4 hydro power and 2 others) in the Nepalese securities market (SEBO, 2010).

2.1.6 Process of IPO

Securities act, 2006, company act, 2006, and regulations, by-laws and guidelines issued under the securities act provide the basic legal framework for issue of securities to the public. The issuing companies should follow the provisions made by these acts, regulations, by-laws and guidelines while issuing securities.

1. Company decision:

Under company decision, the company makes some preliminary decisions. The rupee amount of new capital required is established. The type of securities to be offered is specified. Stock, bonds, or a combination can be used. If stock is to be issued, should it be offered to existing, stockholders or sold directly to the general public. The basis on which to deal with the investment bankers, either by a competitive bid or a negotiated deal, is determined.

2. Appointment of issue manager:

The investment banking firm must be appointed. As per the provision in company act, 2006, company must take services if issue manager licensed by Securities Board of Nepal for the public offering of securities. One can select the any one or two investment bankers.

3. Prospectus preparation:

Prospectus is the important legal document to provide information about the issuing company and the securities. It includes the company's information on major functioning, capital, financial situation, management, involving promoters and directors, operational status and the future prospectus preparation and approval of prospectus is primary task of the public issue. Therefore the issuing company must prepare the prospectus and get approval from SEBON. The information that should be enclosed in the prospectus is prescribed by the securities act as well as the companies act.

As per the requirement of companies act and securities act, no corporate can issue Securities without publishing the prospectus. The prospectus to be published should be approved from securities board of Nepal. This prospectus, during the public issue of securities, is prepared by issue manager and the company.

4. Filing with SEBON:

Prospectus, due diligence certificate if issue manager and other documents should be filed with SEBON to get the prospectus approved.

a) Prospectus: It is the legal document containing the information regarding issuing company and the securities. This document must be prepared by issuer manager and the company.

b) Due diligence certificate of issue manager: It is the certificate issued by the issue manager stating that the issue manager has reviewed all the information contents of the prospectus, and is satisfied with the content of the information and basis of the and content of it.

c) Other documents: these documents includes declaration of the company stating that it has complied with the prevailing laws of the nation applicable to it, financial statements, details of promoters and executive of the company, and details on any issues related with the company.

5. SEBON's review by the prospectus vetting committee of SEBON:

In the prospectus vetting committee of SEBON there are members representing SEBON, Nepal Rastra Bank, Stock Exchange, Insurance Board and Company Registrar's Office. While reviewing the prospectus and other documents, the committee focuses on financial as well as other material information that is crucial for investors to make investment decisions.

6. Clarification\update:

The prospectus and other documents are submitted with prospectus reviewed by SEBON. It asks the issuer to submit clarification where it is satisfied and incorporate in the prospectus accordingly.

7. Prospectus approval by SEBON:

When the issuer submits the prospectus updating as per the required clarification, SEBON approved it for the publication. While approving the prospectus, SEBON can put certain conditions regarding the issue of securities it may be to incorporate in the prospectus, any new information about the issuing company.

8. Issue open and issue close:

Issue should open within 2 months of prospectus approval. Announcements should be published at least 7 days before the issue open. Announcement should contain major information of the prospectus. Application shall be accepted for a minimum period of five and maximum of 15 working days from the date of opening. However if arrangements have been made for at least ten centers for collection of application forms, one at least in each development region, and minimum number of days required to accept the application forms shall be four. The time for issue of rights shares shall not be less than 35 days and shall not exceed 60 days.

9. Allotment and refunding:

The allotment of the issue shall be made as described below in the table; allotment of the issue shall be made the time frame as given in the table and within 5 days of the allotment, refunding should be started. As per the securities registration and issue regulation, 2009, the refunding should be made in the bank account of the applicants mentioned in the share application form.

Table No: 2.1
Allotment Schedule

Number of Applications	Time for Refunding
Up to 1,00,000	40 days
1,00,001 to 2,00,000	50 days
2,00,001 to 3,00,000	60 days
3,00,001 and above	70 days

(Source: Securities Act, 2063)

In case of failure to allot the securities and the money within the stipulated time, issuing company and issue manager shall be responsible, and require to pay the applicants, the interest, as stated by the company act, from the day of closure of the issue till the day preceding which the company started refunding.

10. Listing for the secondary trading:

In Nepal, Issuer Company has currently two options listing securities for the purpose of providing liquidity. Either it can list to the stock exchange or to the Over –the –counter (OTC) market. Both the options are currently provided by the Nepal Stock Exchange Ltd. (Thapa and Parajuli, 2006:7.7).

2.1.7 Regulations of Security Market in Nepal

Security board of Nepal (SEBON) is the apex body to regulate the Nepalese securities markets. It was established on 26 May 1993 under the provision of the securities Exchange Act, 1993. The objectives of the SEBON are to promote and protect the interest of investors by regulating the securities and securities markets. SEBON also regulates monitors, directs, controls and coordinates the entire capital market. SEBON works under the Ministry of Finance.

Security board of Nepal regulates both primary and secondary markets. To regulate the primary and secondary markets, there are various acts and laws. The rules and regulation of the transaction of securities provides the information to the potential investors of securities and encourage investment in securities markets.

The history of security market in Nepal was started from Biratnager jute mill issue 8,000 ordinary shares of Rs.100 each. The first securities exchange act was enacted in 1963 to regulate the trading of securities in Nepal. The act restricted the exchange of unlisted securities and provided the role of stock exchange. NEPSE is the sole organization for the operation of secondary market for listed companies. NEPSE is working under Security Board of Nepal (SEBON). Following rules and, regulations and guidelines are followed by the issuing companies, investors, and brokers in the securities markets in Nepal.

Prevailing Securities Legislation Nepal Government

1. Company Act, 2006
2. Securities Act, 2007

Acts are formulated by SEBON

Securities Act, 2007 article 116 provides the right to make rules and implement them in order to regulate the board, since the SEBON formulates stock related regulations;

1. Securities Board Regulation, 2064
2. Stock Exchange Operation Regulation, 2064

3. Securities Businessperson (Stock Broker, Dealer & Market Maker) Regulation, 2064
4. Securities Businessperson (Merchant Banker) Regulation, 2064
5. Securities Registration and Issue Regulation, 2065
6. Securities Allotment Guidelines, 1994
7. Compliance Guidelines for Securities Broker, 2058
8. Securities Issue Guidelines, 2065
9. Government Securities Bylaws of SEBON, 2062
10. Government Securities Transaction Bylaws of NEPSE, 2062
11. Securities Listing Bye-laws, 2053(1996)

Other Related Acts

1. Insurance Act, 1992
2. Commercial Bank Act, 1974
3. Finance Company Act, 1986
4. Foreign Exchange (Regulation) Act, 1962
5. Foreign Investment and Technology Transfer Act, 1992

2.1.8 Legal Provisions for IPO

Companies Act, 2006, Securities Act 2007, Securities Registration and Issue Regulation, 2008, Securities Issue Guidelines, 2008, and Securities Allotment Guidelines, 1994 provide the legal framework within which the issuer companies and the issue managers perform their public issue and issue management activities. Following are some of the key provisions related to public offering to give a feel of the regulatory regime prevalent in our capital market. Section 23(1) of the Companies Act, 2006, states that a public company should publish prospectus approved by the Company Registrar's Office (CRO) before issuing the securities. Section 24 of the Act mentions the contents of the prospectus; while section 23 states that the directors who sign the prospectus are accountable to its contents. Regarding the allotment, section 28 is state that the issued securities should be allotted within three months of the public announcement. Further, it states that for the allotment of securities, it requires at least 50 percent subscription to the

issue. Similarly, the Companies Act also includes provisions regarding the issuance of securities at premium and restriction of issuing securities at discount, prerequisite to issue different securities instruments, holding of Annual General Meetings (AGM) and reporting requirements.

Section 27 (1) of the Securities Act, 2007 require the companies to register their securities in SEBO also section 5 (1) of the Securities Registration and Issue Regulation, 2010 require the companies to register their securities in SEBO and section 30 (1) of the Securities Act, 2007 require the Prospectus to be published approved by the Board for making public issue of securities. Section 31 of the Securities Act, 2007 requires the Board shall approve only a prospectus which contains such information as may be adequate for investors to make evaluation as to the assets and liabilities, financial status, profit and loss of the issuer and matters expected in the future.

In this regard, rule 27 (2) of Securities Act, 2007 provisions the necessary information and documents to be submitted to SEBO. Section 33 of the Securities Act, 2007 has made the company and its directors, individually or collectively liable for the truth of the details and document submitted to SEBO for the purpose of registration of securities. Section 35 of the Act is states that the issued securities should be listed in the stock exchange for the purpose of transaction. Section 22 (1) of the Securities Registration and Issue Regulation, 2008 requires the listed companies to submit annual financial statements to SEBO within 5th months of the closing of its annual accounts.

Securities Registration Regulation and Issue Regulation 2008, as per the provision of section 7 (1) require. If a Corporate Body intends to sale and distribute its securities to more than fifty persons at a time; it shall be required to make public issuance of securities. Section 10 (3) (a) require the body corporate to be in operation with a record of positive net profit during, at least, three out of last five years and shall require having net worth per share more than paid up value per share. Section 17 (1) a body corporate while making public issue of securities, rights issue of shares or making public offering of securities held by group of shareholder other than in public group shall require using

the services of the Securities Businessperson licensed to function as Issue Manager. Securities Issue Guidelines 2008 Section 9 (1) state that for new issuance there is clear provision on the Memorandum of organized institution. Section 23 (1) provides the allotment and section 24 states the refunding scheme for the issue, which is presented in Table 2.1 above.

Section 13 (1) of the Securities Issue Guidelines, 2008 is stated that the issue should be opened within 2 months of issue approval. If the issue is not opened within the recommended period, section 13 (2) requires issue manager to incorporate the changes, if any, relating to technical, financial, economic and managerial aspects in the prospectus and take issue permission for the same from SEBO. Section 26 states that the provision for trading of securities should be made within 30 days of securities allotment for those securities issued publicly or by circular method. Issue Management Guidelines, 1998 defines the role and responsibility of issue managers regarding the issue. Section 6.6 states that while submitting application in SEBO for issue approval, issue manager should take into account whether the issuer company's managerial, technical, economic aspect and future prospects as well as other information presented justify the public issue. Section 14.5 states that in case of over subscription of public issue, issue manager should submit the criteria and report of allotment to SEBO within 7 days of allotment. Section 17.2 states that issue manager should submit the report relating to issue within 90 days of closure of issue. Section 18 states that while providing issue approval, SEBO can prescribe additional conditions to the issue manager and the issuer company.

2.1.9 Parties Involved IPOs in Nepal

IPO being complex and time-consuming process often needs the participation of a number of entities in this reference, generally those parties or institutions, which do play some role during the process of IPOs in Nepal, are discussed here under.

I. Issuing company

It refers to the company, which is committing IPO to raise capital from public, as provision of company act, 2063; only public limited companies are allowed to go for IPO .the act has specifically stated that the private companies should not issue their shares or debentures to the public, similarly as per Nepal Rastra Bank (NRB) Directives Banks and Finance companies had to go for IPO within certain stipulated time, furthermore, as per provisions of banks and financial institutions act, 2006, banks and finance companies should set aside minimum of 30% of their issued capital to be allocated to the public. However 5% of such shares could be allocated to their employees.

II. Issue manager

Issue manager is an institution who is solely responsible to manage initial public offering as per Securities Act, 2062. Issue manager are institutions holding license from the NEPSE to manage public offering. So far, NEPSE has authorized 17 finance companies to serve as Issue manager. Issue managers receive issue commission from issuing company in return of their services. Such issue commissions are decided through negotiation although, Securities Issue Bylaws, 2054 have stipulated maximum limit for it.

Role and Significance of Issue Managers

Issue manager has a greater role in developing and promoting the primary market of securities. They not only help issuer companies to raise funds but also help investors to make informed investment decision in initial public offerings. Their services are more pronounced in bringing transparency in the public offerings. In addition, they support regulators in regulating primary markets.

Services such as preparing prospectus and fulfilling other procedural aspects required for public issue provided by issue managers to the issuer companies make fund raising process more easy and certain. Generally, the situation of market, perception of investors and procedure relating to issuing securities are the major areas of support provided by the issue managers to the issuer companies. Issue managers could also suggest the types of instruments to be issued through joint discussion with the issuer companies. As issue

managers are more tuned to the general perception of investors, market trend, and advantages and disadvantages of a particular instrument, their suggestions greatly help the issuer companies to select the right type of instruments.

The principal functions of an issue manager are issue advising, helping to prepare prospectus with required disclosure and helping allotment and refunding, listing of securities, and assisting in compliance with the issue related legal provisions. In practice, issue managers also provide services relating to registrar to the issue and underwriting. Companies issuing securities to general public must register their securities with SEBO. For this, the company and issue manager must file detailed registration statements. SEBO vets the registration statements and the prospectus for legal compliance, information integrity and clarity.

The issuer company is mainly accountable for the authenticity, reliability and adequacy of the information disclosed in their prospectus, along with, its board of directors, values and auditors and this is attested by the issue managers. The issue managers are required to present the due diligence certificate regarding the proposed issue. As provisioned in the prevailing securities legislation, SEBO uses this due diligence certificate from the issue manager as a key basis for approving the issuance of securities.

III. Underwriting and underwriter

Underwriter is an institutions authorized to render insurance to the securities issued during IPO and to accept liability for specified risk , as far as practices in Nepal are concerned issue from manufacturing and processing and banks have to be underwritten, but such provisions have been relaxed for finance companies. Furthermore in the event that the issued shares are not fully subscribed by public, the unsold issues have to be distributed among the underwriters on pro-rata basis to the extent of their commitment. They can receive maximum 3% of underwritten amount as their service charge as per provision of Securities listing by-laws, 2054.

Underwriting Process in Nepal

Underwriting is an agreement between the issuing company and financial institution like bank, merchant banks, broker or other person, providing for their talking up the shares or debentures to the extent specified in the agreement. Getting a piece of hot is very difficult, if not impossible. To understand why we need to know how an IPO is done, a process known as underwriting.

When a company wants to go public, the first thing it does is hire an investment bank. A company could theoretically sell its shares on its own, but realistically, an investing bank is required. Underwriting is the process of raising money by either debt or equity. We can think of underwriters in our Nepal are Nepal Merchant Banking and Finance Company Ltd (NMBL), NIDC Capital Markets Ltd. (NCML), Citizen Investment Trust, ACE Development Bank Ltd., National Finance Co. Ltd. Nepal Share Markets and Finance Ltd, United Finance Ltd etc. The company and the investment bank will first meet to negotiate the deal. Items usually discussed include the amount of money a company will raiser, the type of securities to be issued and all the details in the underwriting agreement. The deal can be structured in a variety of ways. For example, in a firm commitment, the underwriter guarantees that a certain amount will be raised by buying the entire offer and then reselling to the public. In a best efforts agreement; however the underwriter sells securities for the company but does not guarantee the amount rose. Also, investment bank does not bear all the risk of offering. Instead; they form a syndicate of underwriters. One underwriter leads the syndicate and the others sell a part of the issue. Only a limited number of broker-dealers are invited into the syndicates as underwriters and some of them not have individual investors as clients. Moreover, syndicate members themselves do not receive equal allocation if securities for sale to their clients.

The underwriters in consultation with the company decide on the basic terms and structure of offering well before trading starts, including the percentage of shares going to institutions and to individual investors. Most underwriters target institutional investors as wealthy investors' in IPO distributions. Underwriters believe that institutional and

wealthy investors are better able to buy large blocks of IPO shares, assume the financial risk, and hold the investment for the long term.

Once all sides agree to a deal, the investment bank puts together a registration statement to be filed with the SEC. The document contains information about the offering as well as company info such as financial statements, management background, any legal problems, where the money is to be used and insider holdings. The SEC then requires a cooling off period, in which they investigate and make sure all material information has been disclosed. Once the SEC approves the offering, a date (the effective date) is set when the stock will be offered to the public.

During the cooling off period the underwriter puts together what is known as the Red-herring. This is an initial prospectus containing all the information about the company except for the offer-price and the effective date, which are not known at the time. The Company Act, 2063 has made mandatory that any institution going into public offering must issue the prospectus before issuing the securities to the public. With the red-herring in hand, the underwriter and company attempt to hype and build up interest for the issue. They go on a road-show, also known as the "dog and pony show"- where the big institutional investors are courted.

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

IV. Bankers to the issue

Bankers to the issue are normally commercial banks and their main responsibility is to provide custodian service to the issuing company. They may or may not receive application from the investors, issue acknowledgements for the same and enter the application details in application schedules. They may also be involved in the process of

realizing the proceeds of issue through cheques\drafts and release final certificates to the issue manager for the number of applications and amount collected.

V. Collection centers

These are the authorized institutions to collect application from the investors issue acknowledgement for the same and the proceeds of issue through cheques /drafts. They also issue final certificates to the issue manager for the number of applications and amount collected. They are provided collection charges for their services, which are usually determined through negotiation and are based on number of applications handled and amount collected. Banks, finance companies or brokerage house mostly performs such roles.

VI. Others

Various other institutions like Security Board of Nepal (SEBON), Nepal Stock Exchange (NEPSE), Nepal Ratra Bank (NRB), and Company Registrar's Office (CRO) also do play same role influencing IPO in one way or the other. As per provisions of Securities Act, 2063 issuing companies should get issue approval from SEBON. The companies should also get issue approval from CRO. If the issuing companies are financial institutions then they need to obtain approval from NRB as well, prior issuing their shares to public. Similarly, trading of securities is considered illegal, if they are not listed in NEPSE.

2.2 Review of Related Studies

This section of the study draws experts from international journals articles, Nepalese journal articles along with master's dissertations. International journals have been accessed through the website [www. Google.com](http://www.Google.com). Similarly, Nepalese journals and master's dissertations have been accessed from library of Nepal Commerce Campus, Central Library of TU and Library of SEBON.

2.2.1 Review of Journals

Large volume of research works have been carried out elucidating different aspects of IPOs throughout the globe, however, only those works, which were considered relevant to this study have been included and excerpted below .

Fields and Others (2003) performed a study on "A comparison of under writing costs of initial public offering by investment and commercial banks". The study mainly examined the differences in underwriting costs between commercial bank section 20 underwritten IPOs and investment bank underwritten IPOs.

In the study, they used a sample of section 20 commercial banks and investment banks underwritten IPOs from 1997. They identify 4,566 IPOs during the period using Securities Data Collection (SDC) initial offering data base. They examined gross margin and under pricing separately and combined to assess whether the costs of IPO underwriting differ for commercial and investment banks. They also provided sensitivity test to address potential endogenous bias.

Their analysis found that underwriting costs for IPOs are lower for commercial banks underwritten issues than for investment bank underwritten issues. Total underwriting costs are significantly lower for commercial bank underwritten issues both statistically and economically. The lower total underwriting costs for commercial bank underwritten issues reflect lower under pricing costs rather than any differences in gross margin. Finally, they concluded that longer term studies would be needed to determine whether the findings on the study persist in the future, as section 20 subsidiaries become more established in the IPO underwriting market.

Derrien (2005) carried out a research study on "IPO pricing in Hot market conditions; who leaves Money on the table?" in the paper researcher has assumed that Miller's (1977) model holds for IPO and developed a model of IPO pricing in favorable market conditions. The model relies on the assumption that after market price support is costly for the underwriter. The prediction of the model was tested using a sample of 62 IPOs

completed on the French Stock Exchange between 1999 and 2001. A sample of latest French offerings with a fraction of the shares reserved for individual investors supported the pre-conditions of the model. The paper mainly analyzed the impact of favorable investor sentiment on the pricing initial return and long term performance of IPO stocks.

By the end, he concluded that noise traders are bullish. They are ready to buy IPO shares at high prices. In this framework IPO prices reflect the private information collected in the IPO process and partially the public information (noise trader sentiment) known at the times of offering. Therefore IPOs are overpriced (i.e. priced over their long run intrinsic value) on average, but exhibit positive initial returns. Hence, the companies going public in hot markets are not upset about leaving money on the table; as they know that their shares are overpriced at the time of offering.

Bran and Fawcett (2006) performed a study on "IPOs; an Analysis of Theory and Practice". The study intended to extend the IPO literature by analyzing unique data from surveys of chief financial officers (CFOs) to compare CFO perspectives to prevailing academic theory. Specially, they examined the following; seven issues, motives for going public, timing of the IPOs, underwriter selection, under pricing, signaling IPO process issues and the decision to stay private. In this regard they surveyed three sub samples of firms, namely those that are large enough to go public, but have not attempted an IPO. They surveyed 330 CFOs and their survey process followed Dill Mar's (1978) total design method, which is a standard for conducting academic surveys their findings are summarized as;

The most important motivation for going public is to create public shares for use in future acquisitions. Insiders are opportunistic especially at VC-backed firms. They seek to go public at a time that portends a high stock price. The underwriter selection process is driven by a very small set of selection criteria namely underwriter reputation and IPO process expertise. CFOs are well informed regarding expected under pricing. They attribute most under pricing to market uncertainty and the need to reward investors for taking the risk of IPO. The most important positive signal is past historical earnings, this

may promote window-dressing CFOs strongly prefer firm-commitment underwriting. Companies remain private to preserve decision making control ownership.

Finally they conclude that CFO survey responses indicate that academic theory regarding the IPO process is generally well grounded. However the CFO's perspectives suggest a need to revisit and refine several ideas that are commonly held in the IPO literature.

Kafle, D. R. (2005) wrote on the topic "Primary market development in Nepal: issue and challenge" on the sub-topic Review of IPO market and legal provision, the study analyzes 10 years market data (1993/4 to 2003/4) as; "A review of public offering market during the period 1993/94 to 2003/04 reveals that public issue approval from SEBO reached Rs. 7,249.1 million. Annual size of average issue approval is Rs.659.0 million. The average issues approved by SEBO in the last four years exceeded the average annual size of the last ten years indicating an increasing trend. Of the total public issue approved during the period 1993/94 to 2003/04, 51.09 percent was from banking sector, 23.83 percent from finance sector, and 12.45 percent from manufacturing and processing sector, 4.38 percent from hotel sector, 3.87 percent from insurance sector, 0.04 percent from trading sector and 3.89 percent from other sectors. This shows that the major portion of the total public issue approval was from bank and finance sectors. It is to be noted that there is mandatory provision to issue securities for the banks, finance and insurance companies. Similarly, instrument wise public issue approval during the period of the fiscal year 1993/94 to fiscal year 2003/04 reveals that on average 77.14 percent of the total public issue approval was equity share i.e. common stock including rights issue, 10.39 percent debenture, 9.21 percent mutual funds and 3.26 percent preference share. This shows the market dominated by risky instrument."

News on the topic "Strict in margin lending" (Kantipur Nepali Daily, Friday 23rd March, 2007:11) mention that Nepal Rastra Bank (NRB) strict the policy of margin lending to buy the share of initial public offering. According to this news NRB gave the direction to the bank and other financial institutions not to provide loan to buy primary share until seven days of public offerings.

Dahal, G.B. (2006) wrote on the topic "The Performance of Nepalese IPOs"; his analysis reveals the weak performance of the market and slow pace of development. Several efforts were made to reform the market and improve market performance. However, these efforts have not become fruitful because of structural deficiencies in market mechanism. Lack of appropriate and standard legal framework has been the major reason for not improving efficiency of regulation. Various kinds of frauds and malpractices from the service providers have been noted. Investors are being the victims of market hypes, as their awareness level could not be raised adequately. SEBON as being the regulator of securities market must be responsible for proper functioning of market. With the enactment of new Securities Act, SEBON should gear up for the overall development of the market. For this SEBON should give maximum emphasis to bring into implementation of the various regulations as provisioned by the Act. A prerequisite for this would be the capacity building of the regulator with adequate authority and operational autonomy, proper resources and experts, and technological enhancement. SEBON should focus to play its role in infrastructure development, improvement of professionalism of the market participants, enhance disclosure standards, supervise market and take enforcement actions to ensure fairness and transparency in the market.

Abstract his paper assesses the performance of Nepalese IPOs and relates them to potential factors. The study finds that the Nepalese IPOs are heavily oversubscribed and provide the investors with the market adjusted excess rate of return leading to the conclusion that Nepalese IPOs are under priced too. The study finds that the NEPSE Index and the subscription as times of issue have significant predicting strength on the performance of IPOs. The study results show that phenomenon of oversubscription can be explained by the firm size and the debt equity ratios.

Bhattacharai, R. (2006) wrote on the topic "Rumor led the market," from its topic that Nepalese security market led by the Rumor and Speculation. Investors invest their fund due to rumor rather than due to change in fundamentals. According to him the NEPSE index upped by 11 points after the agreement signed between Seven Party Alliance (SAP)

and the Maoist on 8th November, 2006. Similarly, NEPSE index was increased by 45.98 point with the peace accord week after on 21st November. Bhattarai further wrote, "The regular speculators were trying to cash in on the political agreement by spreading rumors of a better economy in future" which build a confidence to the investors of receiving better return in future.

Mr. Bhattarai gave the examples of speculations spreading about Nepal Bangladesh Bank (NB Bank) and Nepal Credit and Commerce Bank Ltd (NCC Bank). According to him, speculators spread the propaganda about NB Bank future prospectus after its management was taken over by the Nepal Rastra Bank (NRB). NB Bank's share price reached Rs.335 after the NRB took over Banks' management however banks' book value was only Rs.65 per share. Just before NRB's takeover, depositors had withdrawn over Rs. 3.5 billion from the bank drastically reducing its business capacity. From this fact it is known that the market price was overpriced, according to him; "This was quite unjustified on the basis of banks fundamentals." Similarly, negative information has been flowed about the NCC Bank. According to him, "The banks deteriorating performance and the decreasing credit worthiness of its promoters had led it into a liquidity crunch in recent days but in rumor that a Japanese company would invest in the bank pushed the market price up by almost Rs. 90 per share between late November and December." He further wrote: "Investors were blindly attracted to buy the bank shares because of this rumor."

It shows that the Nepalese security market and share price movement was led by the rumors and which shows that the Nepalese security market is not an efficient capital market.

Primary market is growing in importance as it provides of a good source for corporate financing, an alternative to the private and bank financing. In the past 10 years, capital issue in the tune of Rs. 8.5 billions was offered to the public investors. However, there was uneven growth by sectors. More than two-third of the amount issued was from bank and finance sector, a newly liberalized sector that requires mandatory public offer.

Although companies from hotel, trading, manufacturing, mining, aviation and, of late hydroelectric sector have gone public, their operational and market performance continue to be weak. There is Instrument-wise, more than three-fourth of the issue size is made up of equity Instrument-wise, more than three-fourth of the issue size is made up of equity shares. Other types of instruments offered in the market are debentures, mutual funds and preference shares. The market instruments need to be more innovative in order to meet the funding needs of the company that match the investment

Ghimire, B. (2007) wrote on Kantipur National Daily on the topic "Risk of instability in share market." Supports that there is instability and fluctuations in share market and any investors who invest without knowledge can lose more. He viewed that price rise and falls in reasonable in organized and competitive market. He further says; "In Nepalese capital market there are less investors who invest by analyzing the company's conditions and competition."

Thapa, K. (2007) wrote on the article "Nepalese Securities Market: Regulation and Development," Nepalese IPOs have been found to be heavily oversubscribed. It shows that the investors have a very high degree of attraction to the IPOs. The study shows that growth of Nepalese IPOs in terms of issues and subscription has been bumpy during the study period. The study shows that the IPOs investors make 53.25% market adjusted returns leading to the conclusion that Nepalese IPOs are highly underpriced. In one hand the investors do make money from Nepalese IPOs On the other hands the higher the under pricing, the higher will be the wealth loss of promoters. This might have prevented the potential issuers from going public. Such companies which refrain from going public might not have made appropriate level of investment. As a result, the society and nation at large might have lost the potential gains from the increased investment and productivity of those companies. IPOs returns have been affected mainly by the subscription times of issue and general returns of stock market.

The study also reveals that the firm size expressed as the size of total assets affects the subscription times of issues positively and the debt equity ratio affects the same

negatively. The study has shed light on some of the important aspects of the IPOs performance and opened several doors for the further researches in Nepalese IPOs.

Newsletter SEBON 2010 on the topic IPO approval, SEBON has approved public issue amounting to Rs. 11914.26 million till June 24, 2010. Of the total issue approval, Rs. 2517.14 million worth was of primary issue and Rs. 9397.16 million worth was of rights share issue. Till June 24, 2010, two commercial banks, 17 development banks, six finance companies, three insurance companies got primary issue approval amounting to Rs. 1031.51 million, Rs. 930.00 million, Rs. 231.60 million and Rs. 324.00 million respectively. Similarly, seven commercial banks, eight development banks, 14 finance companies and two insurance companies got rights share issue approval amounting to Rs. 3256.25 million, Rs. 2048.21 million, Rs. 3957.75 million and Rs. 134.95 million respectively.

KC, B. (2007) wrote on the article “Stock market development in Nepal: Issues and challenges for reform,” his study aims to highlight the issues and challenges of stock market development in Nepal. Empirical studies suggest that financial development does matter and stock markets do spur economic growth. Over the past one and half decade financial sector, despite many problems, has developed significantly in Nepal. The developments are confined to the banking sector rather than the overall financial sector. The study indicates that small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value-traded-ratio to volatility, and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Stock market has been less reliable source of raising funds for the Nepalese firms.

He concluded that Empirical studies suggest that financial development does matter and stock markets do spur economic growth. Unfortunately in Nepal, despite a history of about half a decade of planned economic activities to develop the economy of the country little attention was paid to the development of financial sector.

Over the past one and half decade financial sector, despite many problems, has developed significantly in Nepal. However most of the developments are confined to the banking sector rather to the overall financial sector. Stock market has virtually remained unaffected by the development. Various measures of stock market development indicate that the stock market in Nepal is undeveloped and has failed to show significant impact on the overall national economy of the country. Small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value traded-ratio to volatility and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Investors tend to avoid stock market because they cannot invest in securities according to their risk-return preference.

Similarly firms shun it because stock market is less reliable source of raising funds for them. Major challenges for the development of stock market for the policy makers are to ensure macroeconomic stability, promote transparent and accountable institutions, protect shareholders right, and enhance good governance. Other challenges include making wider use of automation, encourage private companies to go public, promote institutional investors, strengthen regulation and supervision and educate investors and general public. Swings in the stock market today are guided more by the policy of central bank, particularly relating to the capital base of banks and other financial institutions rather than the analysis of the fundamentals of the companies.

2.2.2 Review of Related Thesis

The investment consideration begins from the selection of the brokers to assists the trading in the securities market. Most of the investors have access to investment information in the form of oral and written from their brokers. Brokers subscribe to well-known investment information sources that can be used by the customers. Brokers are most active trading agents of capital market. Stockholders are backbone of stock market growth and its smooth functioning.

Shrestha, S. K. (1996), wrote on the topic; "Public Response to Primary Issue of Shares in Nepal". His study reveals the fact that the scope if primary market is recent says in

booming. Even the general investors heavily invest their saving in the new issue of shares causing over subscription to a great deal. Shrestha here asserts that the growth of the primary market is encouraging since many public limited companies including joint venture banks has been successful in tapping capital through the floatation of shares to the general public. There is positive response of the investors to the companies in a direct manifestation of the growing public confidence in the primary market. The general public simply taps everything that comes on their way, regardless of the promoter's background and company feasibility. Each company come into the market has been successful in tapping the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscription.

He further adds that the public response varies from one sector to another business sector. The mismanagement that follows when the subscription list is open and the subsequent deal in the allotment of tend to undermine the confidence of the investors thereby hindering the future growth of the primary market. Primary market is affected by the projected dividend, Return On Investment (ROI) through prospectus and issue managers, etc. on the contrary ; there exist Other uncontrollable forces, which hinder the smooth functioning of the primary market, economic policy, capital formation, investor's attitude, alternative investment opportunities, legal provisions and foreign investment policy belong to this category.

Pandey, M.(2001), who has done research on " Public Response to Primary Issuer of Shares in Nepal", with the objective of: identifying the problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares and find the reasons for variation. He has the following findings from his research:

- Public response in primary market is high due to lack of opportunities for investment in other fields.

- No public are attracted towards shares than other securities basically to increase their value of investments, be it dividend gain or bonus shares.

-It can be seen that public response to primary issues on Banking and financial sectors is normally higher than that of the manufacturing and services sector.

There was poor response in the period 1995-1998 because interest rates were higher as compared to dividend yield, the public companies were not performing well, and people were unaware about the importance of investing in securities. Now the response is highly positive because people are unaware money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Pokhrel, P. (2002) has conducted the thesis "A study of securities market in Nepal." The main purpose of this study is to examine and analyze the trend as well as the risk and return of different sectors listed in securities market. To achieve this purpose, specific objectives have been set up such as to find out and analyze the risk and return of different sector of securities market and to analyze the inter-relationship between the risk and return of each sector.

In order to support the study the sophisticated technique of analysis such as correlation method, regression method statistical tools, financial tools, test of significance were adopted to analyze the provided data from the securities market and the various listed joint stock company.

She has pointed about the risk and returns trend of the different sectors i.e. Banking, finance, insurance and manufacturing and service organization in her study. According to her; "Among all sectors are listed in the securities market. Banking sectors has the highest expected return (50-33%) followed by the finance sector with 47-36% ? The sectors having the lowest expected return are the one categorized as others with just 10.3% and trading sector with 10.65%".

Adhikari, M. N. (2005) has conducted a research survey on " An Analysis of Determinants of IPO under Pricing in Nepal." The basic objectives of the study was to analyses the under pricing of IPOs in the context of Nepal. Beside the study also examined the trends of public offerings market and process of going public in Nepal for the purpose of study data of the period of 4 years from fiscal year 1999\2000 to 2003\2004 were used.

The researcher concluded under pricing does not occur among Nepalese firms. The researcher also added that the result is not consistence with the theory and different findings of empirical studies conducted in different countries. IPO market in Nepal does not enjoy any right to set the price of their own issue; the price setting process is totally controlled by the regulatory body. Because of this reason, Nepalese Merchant Banker could not play any role to influence the offer price of IPOs.

Even though numerous studies have been carried out in different part of the world covering different aspects of IPO including to empirically testing theories IPO under pricing and long run under performance of IPOs such studies are not available on Nepalese context. Few studies have analyzed existing state of IPOs in Nepal and one research paper has tried to ascertain IPOs under pricing in Nepal. However, none of the studies has been able to portray the complete picture of IPOs in Nepal. In this context, this study attempts to examine and identify the practices of IPOs analyze the subscription pattern of IPOs in Nepal to determine the relationship between subscription pattern and capitalization of Nepalese IPOs and suggest and recommend on the basis of major findings.

Paudel, N. (2006) who has done research on "Public Response to IPO in Nepal", with the objective of; identify the dealing process of IPO, analyze the pace of IPO and analyze the public response to the IPO, He use primary and secondary data both.

He has concluded that general investors in Nepal do not have sufficient information regarding the primary market and in spite of this they are interested in investing money in the primary market they are more interested in financial sector than non-financial sector.

He has also summarized that pace of initial public offering in Nepal seems to be irregular, even though the organization's process of public offering is quite long; the service provided to the investors seems to be satisfactory, public response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

Pakhrin, B. (2009) who has done research on "Public Response to IPO in Nepal", with the objective of: examine the growth of primary share market in Nepal, analyze the problems and prospects of primary share market in Nepal and analyze the investors' response to IPO.

He has concluded that most of the public do not know about IPO. Even in the knowledge one most are interested in financial sector than non financial sector. Even among the financial sector most are interested in commercial bank but among the financial sector development bank has the highest subscribed one.

He has also summarized that most people are in favor of regulation by NRB for IPO funding via financial institutions as it lessen the equal chance of getting allotment. Most of the shares go in part of big investors. This kind of mismanagement discourages the investors. Even though the whole IPO process in very long, Nepalese investors are interested to invest in this sector.

Khadka, N. (2009) conducted the thesis; "Policies and Practices for Primary Issue of Share in Nepal." The main objectives of the study are as to analyze the policies and practices for primary issue, the problems and growth of primary share issue market in Nepal and the pace of primary issue of share. To identify the roles of the investment

bankers (issue managers) in the process of primary issue of share and impact of the financial institutions loans for primary issue of share funding.

She concluded that from 1993/94 to 2005/06 SEBON has approved 162 issues amounting Rs.9597.48 million. The highest number of issues is in the year 2005. Year 2006 which is 29 and the lowest is in year 1996/97 and in year 1998/99 which is 5 only. In the 162 issues 105 were over-subscribed 41 were under-subscribed and remaining 16 were constant.

While analyzing the public response in financial sector, in average 6.55 times subscription found in commercial Bank. For the development Banks subscription time of 12 in average is found for the finance companies average subscription is 6.91 times. For the insurance companies' average subscription is 14.61 times .from all this it is clear that most desirable financial sector is insurance sector 10.02% subscription for the whole financial sector.

Shrestha, R. (2010) has conducted the thesis; "Stock volatility and its impact on Nepalese share market." Objectives of the study are as to analyze the current share price volatility in Nepalese securities market, test the level of market efficient of Nepalese stock market and study and analyze the stock price trend and trading volume of equity share price after the peace accord in Nepal. His conclusion appears as under;

Nepalese stock market is very sensitive to the signaling factors. So it can be said that Nepalese stock market is efficient in the sense of pricing share but there might be some error to say Nepalese stock market is "efficient". Since the market efficiency is defined as all the relevant information is reflected in share price.

Another conclusion can be drawn that there was increasing trend in share price and share trading volume after the peace accord of 22nd Kartik, 2063 and political movement of 2065 and most of the investors felt it positively impact on share market but does not think it as a major influencing factors on share price movements. Lastly we can conclude that

Nepalese stock market not an efficient market but slightly exist the weak from efficient market hypothesis.

2.3 Research Gap

However there are many research related to IPO in Nepal, they do not have analyze the basis for distribution of shares, performance analysis of issue managers in the process of IPO and response for the margin lending restriction. For the primary data analysis this research has tried to involve more and more information about the capital market. This research analyzes the process of IPO and today's practices. For the reliability of the study both primary and secondary data are used and analyzed.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter deals mainly with the research methodology, which are used in period of research. “Research means to research the problem again and again to find out something more about the problem. Again research is a systematic and organized effort to investigate a specific problem that needs a solution” (Selcarn,1992). Similarly methodology refers the various steps that are generally adapted by researchers in studying his research problem along with the logic behind it. Thus research methodology is a way to systematic process that is adopted by the researcher in studying a problem with certain objective. It means research methodology describes the methods and process applied in the entire aspect of the study. In this regard this chapter research design, nature and sources of data and use of statistical tools are used in the study.

3.1 Research Design

“Research Design is an overall plan or framework for the collection and analysis of data. Research design provides the framework for the study guidelines for the collection and analysis of data” (Kerlinger, 1995).

The basic elements of the research design are problem the methodology data collection, data analysis and report writing. First the data are presented, second presented data are analyzed by using various financial and statistical tools and last analyzed data are compared and interpreted for the conclusion.

3.2 Population and Sample

The large group about which is the generalization is called the population. Because of the large group size, it is fairly difficult to collect detail information from each member of population. Rather than collecting detail information from each number, the small portion is chosen from the population for studying its properties is called a sample and the

sample is known as sample size. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made.

As the study of whole population (17 merchant banks) makes study cumbersome only 8 merchant banks are taken as sample. The sample banks are as follows; National Finance Co. Ltd, Citizen Investment Trust, NMB Bank Ltd, Nepal Share Markets and Finance Ltd, ACE Development Bank Ltd, United Finance Ltd, Nepal Finance Company Ltd and NIDC Capital Markets Ltd. The sample companies have more than nine years experience in the field of merchant banking. So I have chosen the merchant bankers as sample.

Table No: 3.1
Merchant Bankers

S.N.	Name	Business	Address
1	National Finance Co. Ltd.	1. Issue Manager	Pako New Road, Ktm
2	ACE Development Bank Ltd.	1. Issue manager 2. Share Registration 3. Underwriting 4. Investment Management	Narayan Chaur, Ktm
3	NIDC Capital Markets Ltd.	1. Issue manager 2. Share Registration 3. Underwriting 4. Investment Management	Kamal Pokhari, Ktm
4	NMB Bank Ltd.	1. Issue manager 2. Share Registration 3. Underwriting 4. Investment Management	Babar Mahal, Ktm
5	Nepal Share Markets and finance Ltd.	1. Issue manager 2. Share Registration	Ramshah Path, Ktm

		3. Underwriting 4. Investment Management	
6	United Finance Ltd.	1. Issue manager 2. Share Registration 3. Underwriting 4. Investment Management	Darbar Marga, Ktm
7	Citizen Investment Trust	1. Issue manager 2. Share Registration	Putali Sadak, Ktm
8	Nepal Finance Company Ltd.	1. Issue manager 2. Share Registration	Kamaladi, Ktm

(Source: SEBON Annual Report 2010)

3.2.1 Sample Characteristics

To fulfill the objectives of the study 120 people are taken to collect primary data. Among 120 people for the primary data collection, 41.67% (50) are businessman, 19.16% (23) are students, 16.67% (20) are bankers, 4.17% (5) are brokers and remaining 18.33% (22) are others. Samples are taken by the random sampling method.

3.3 Data Collection Procedure

As per the requirements of the research a questionnaire was designed for the primary data collection. And then that was distributed to 120 respondents (businessman, students, bankers, brokers and others) for their responses. For the secondary data is collected from NIDC capital Markets Limited, Citizen Investment Trust, Nepal Share Markets Ltd., Nepal Stock Exchange. Also data has been taken from the annual Report, News Letter and Journal of Security Board of Nepal, Economy Survey 2010, Annual Report of Merchant Bankers.

3.4 Presentation and Analysis of Data

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

3.5 Pretesting

The pretesting of the questionnaire was done on a sample of 7 respondents. Different difficulties were faced during that and depending on the difficulties encountered by them in giving responses; its initial format was suitably modified.

3.6 Statistical Tools

Different statistical tools like Bar Diagrams, line Charts and Pie Charts have been used to analyze the data. These tools are used to know the relation between different variables and public response. For pie charts given data are shown in terms of degree, in which total is 360 degree.

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

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

Data presentation is the interpretation of the study. Data analysis summarizes the collected data and its interpretation presents the major findings of the study. Analysis is not complete without interpretation and interpretation cannot proceed without analysis; in this course of analysis, data gathered from various sources have been inserted in the tabular form and shown in diagram form. The data have been analyzed by using financial and statistical tools. The results of the computation have also been summarized in appropriated tables. The samples of computation of each model have been included in annexes. This chapter includes presentation of data and analysis of that data to reach at a conclusion. Primary and secondary data are used to analyze.

4.1 Secondary Data Analysis

Secondary data are published data those are used for different purpose. Secondary data are taken from SEBON, NEPSE, Nepal Share Market Annual Report 2010, Economy Survey 2010, and SEBON News Letter to fulfill the objectives.

4.1.1 Capital Market Trend

The capital market is the market for the long term loans. Companies and the government can raise funds for long-term investment via the capital market. The instruments of capital market are less liquid instruments. For example, shares, debentures, bonds etc. the market can be classified into primary and secondary market.

4.1.1.1 Primary Market Trend

Primary market is the market for new securities. The security market transfers the funds from savers to borrowers' throughout the primary market. Hence, the transaction of the securities issued for the first time take place in this market.

Analysis of primary market as follows;

4.1.1.1.1 Analysis of Issue Approved and Capital Realization

Securities Act, 2063 has made mandatory that the issuing company should register the securities in SEBON and get approval before going to public. From the fiscal year 2000/01 to 2009/10 SEBON has approved 317 issues of securities amounting to Rs. 48782.36 million. The details are as follows:

Table No: 4.1

No. of Issue Approved & Capital Realization

Fiscal year	No. of Issue Approved	Issue approved (in %)	Amount of Capital Realization (Rs. in millions)	Capital Realization (in %)
2000/01	9	2.84	493.4	1.01
2001/02	12	3.79	1579.9	3.24
2002/03	18	5.68	696.6	1.43
2003/04	14	4.42	1090.4	2.24
2004/05	14	4.42	1672.3	3.43
2005/06	29	9.15	2243.3	4.60
2006/07	34	10.73	2295.5	4.71
2007/08	64	20.19	9968.2	20.43
2008/09	64	20.19	16828.5	34.5
2009/10	59	18.61	11914.26	24.42
Total	317	100	48782.36	100

(Source: Economy Survey 2010 and SEBON News Letter 2010)

The above data can be presented as following figures;

Figure No: 4.1
Number of Issue Approved

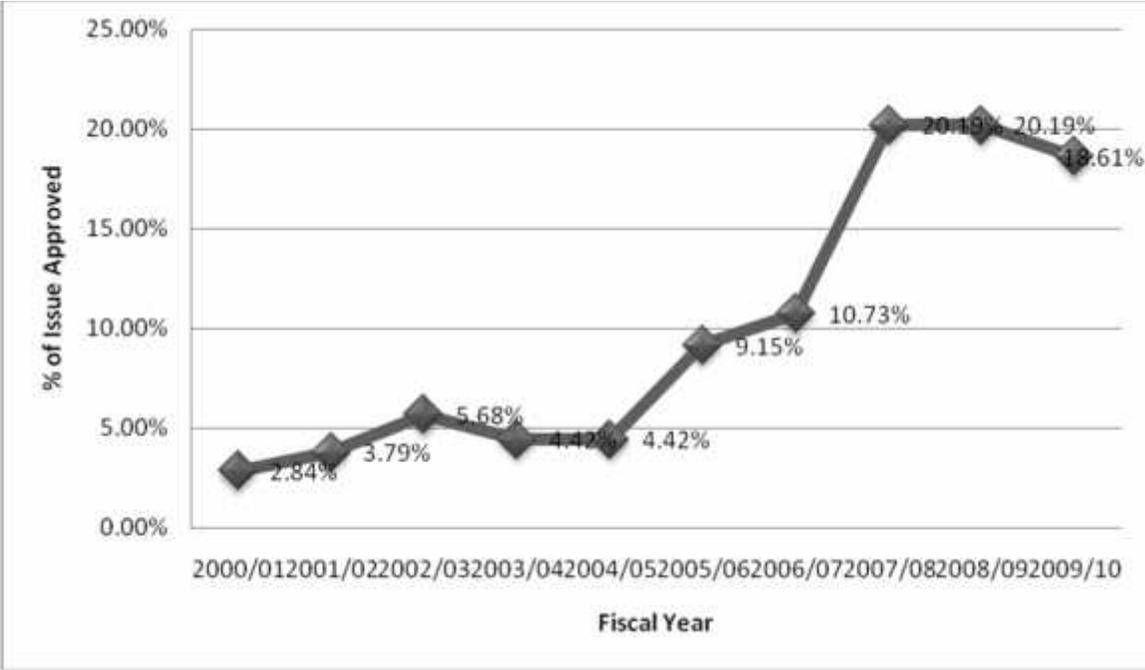
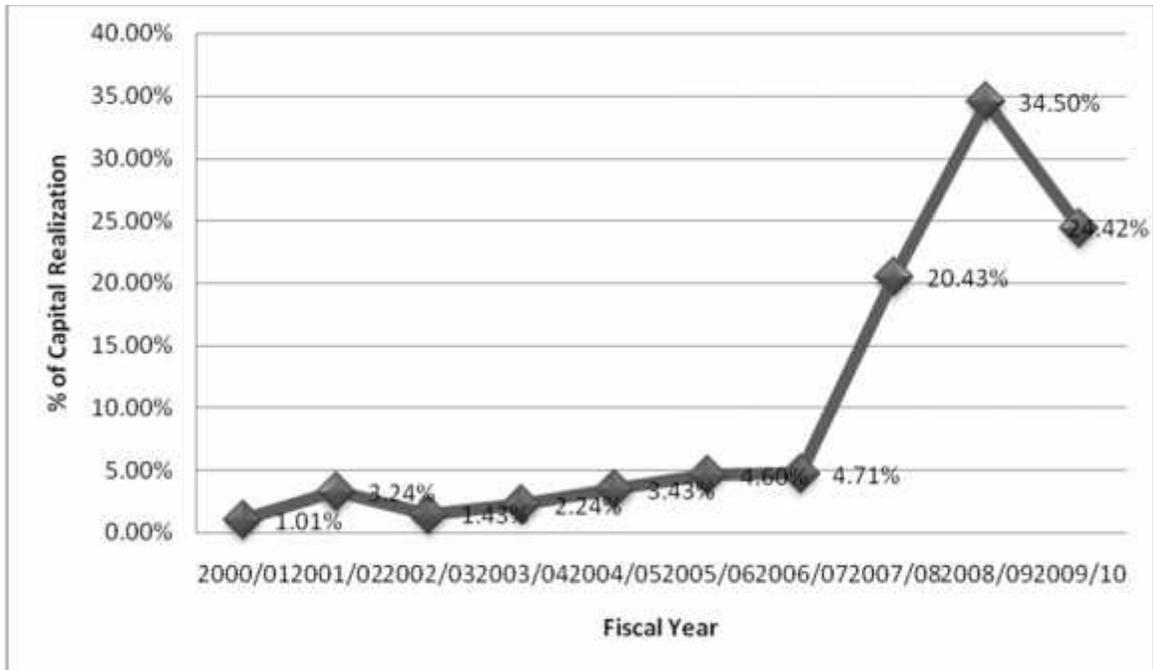


Figure No: 4.2
Amount of Capital Realization



Above table no. 4.1 and figure no. 4.1 presents the variation of no. of issue approved during the year 2000/01 to 2009/10. In this period SEBON approved 317 issues. Highest no. of issue approved is 64 in the FY 2007/08 and 2008/09 which is 64 (20.19%). Among the period lowest no. of issue approved is only 9 (2.84%) is in FY 2000/01. Trend of the issue approved is increasing but the FY 2009/10, there is only 59(18.61%) issue approved which is the lower than FY 2008/09.

Table no. 4.1 and figure no. 4.2 provides the information about the capital realization starting from FY 200/01to 2009/10, practices of capital realization is positive that is gradual increasing. The greatest amount of capital realization is Rs. 16828.5 million (34.5%) is in the FY 2008/09. After that decreases to amounting to Rs.11914.26 million (24.42%) is in the FY 2009/10.

4.1.1.1.2 Instruments Wise Securities Issue

To fulfill the objectives of the study, instruments wise securities issue also should be analyzed. Especially four kinds of securities are issued as initial public offering namely

equity share, right share, and debenture and preference share. The data are taken from FY 2000/01-2009/10. The details are as follows;

Table No: 4.2
Instruments Wise Securities Issue

Instruments	No. of Issue	Percentage (%)	Amount of Issue	%
Equity	128	40.38	8245.24	19.36
Right Share	172	54.26	28302.25	66.44
Pref. Share	2	0.06	540	1.27
Debenture	15	4.73	5510	12.94
Total	317	100	42597.45	100

(Source: SEBON Annual Report, 2010)

The above data can be presented in the following figures;

Figure No: 4.3
Instrument Wise Number of Securities Issue

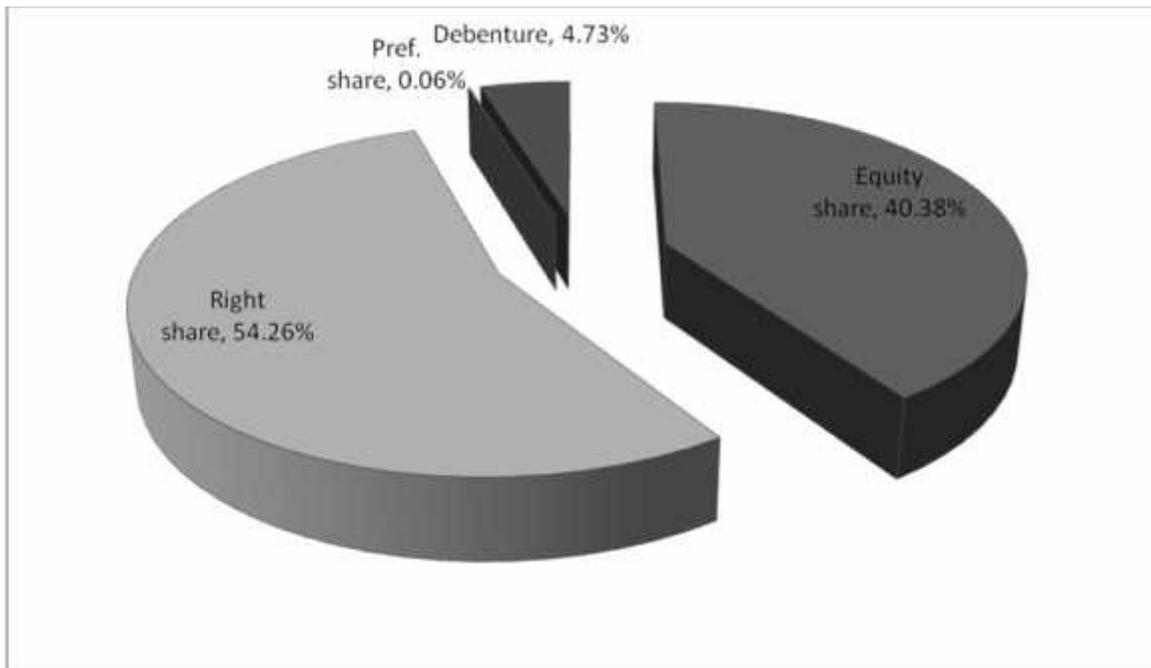
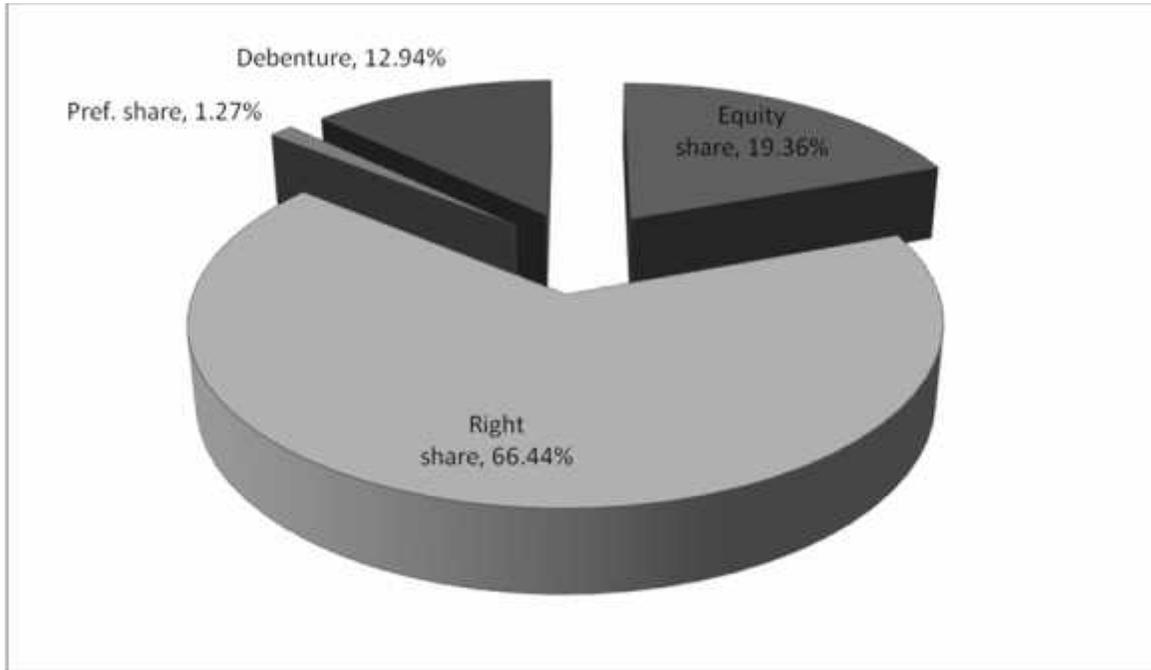


Figure No: 4.4
Instrument Wise Amount of Securities Issue



The above table no. 4.2 and figure no. 4.3 shows that till fiscal year 2009/10, 317 issues are approved by the SEBON. Among them 172(54.26%) is Right Share the largest no. of issue approved. The no. of issue approved is only 2 times (0.06%) of Pref. share. Equity share issued 128 times (40.38%) and debenture issued only 15 times (4.73%).

Table no. 4.2 and figure no. 4.4 deals the sector wise issue amount from the FY 2000/01 to 2009/10. The right share is most popular with the value of Rs.28302.25million (66.44%). And equity share, debenture and pref. share Rs.8245.24million (19.36%), Rs.5510million (12.94%) and Rs. 540 million (1.27%) respectively.

4.1.1.1.3 Subscription of Securities

The demand for securities may be greater or lesser than the issuing amount. When the demand is greater that is called over subscription and when the demand is lesser that is called under subscription. The details of the subscription are as follows;

Table No: 4.3
Subscription of Securities

Year	No. of Issue	Over Subscribed		Under Subscribed		Constant	
		No.	%	No.	%	No.	%
2000/01	9	8	88.89	1	11.11	0	0
2001/02	12	5	41.67	4	33.33	3	25
2002/03	18	14	77.78	3	16.67	1	5.55
2003/04	14	12	85.71	2	14.29	0	0
2004/05	14	6	42.86	7	50	1	7.14
2005/06	29	17	58.62	10	34.48	2	6.9
2006/07	34	34	100	0	0	0	0
2007/08	64	21	32.81	0	0	43*	67.19
2008/09	64	14	21.88	0	0	50*	78.13
2009/10	59	28	47.46	0	0	31*	52.54
Total	317	159	59.72	27	10.47	131	24.25

(Source: SEBON Annual Report, 2010)

*In fiscal year 2007/08 and 2008/09 2009/10 mostly issued right share.

The above table no. 4.3 shows the variation of issue subscriptions from the FY 2000/01 to 2009/10. Among 317 issues, most of the issues are oversubscribed. Out of 317 issues 159 issues are oversubscribed which is 59.72% Of the total. Only 27 issues are under subscribed that is 10.47%. And 131 issues are constant which 24.25% of the total is.

4.1.1.1.4 Performance of Issue Managers

Issue manager play vital role in the primary market. There are seventeen issue managers appeared at the end of year 2010. Number and amount of issues managed by merchant bankers indicate the performance of issue managers. The details are as follows;

Table No: 4.4
Number and Amount of Issue Managed by Merchant Bankers

S.N.	Issue Managers	No. of Issue Managed	Percentage (%)	Amount of Issue Managed (Rs. in millions)	Percentage (%)
1	NMBL	46	18.33	8114.93	20.82
2	NCML	94	37.45	11548.72	29.64
3	AFCL	54	21.51	9927.8	25.48
4	NEFISCL	18	7.17	581.62	1.49
5	CIT	29	11.55	7643.33	19.61
6	NSMCL	6	2.39	230.1	0.06
7	NFCL	4	1.59	923.3	2.37
8	UFCL	0	0	0	0.00
Total		251	100	38969.8	100

(Source: SEBON Annual Report and News Letter, 2010)

*Including two issues amounting to Rs. 360millions (150+210) million jointly managed by Citizen Investment Trust and NIDC Capital Markets. Also one issue amounting to Rs. 24.8 million jointly managed by NCML and NMBL. And another one issue amounting to Rs. 24.8millions jointly managed by NCML and NEFISCL.

The above table can be presented in the following figures;

Figure No: 4.5

Number of Issue Managed

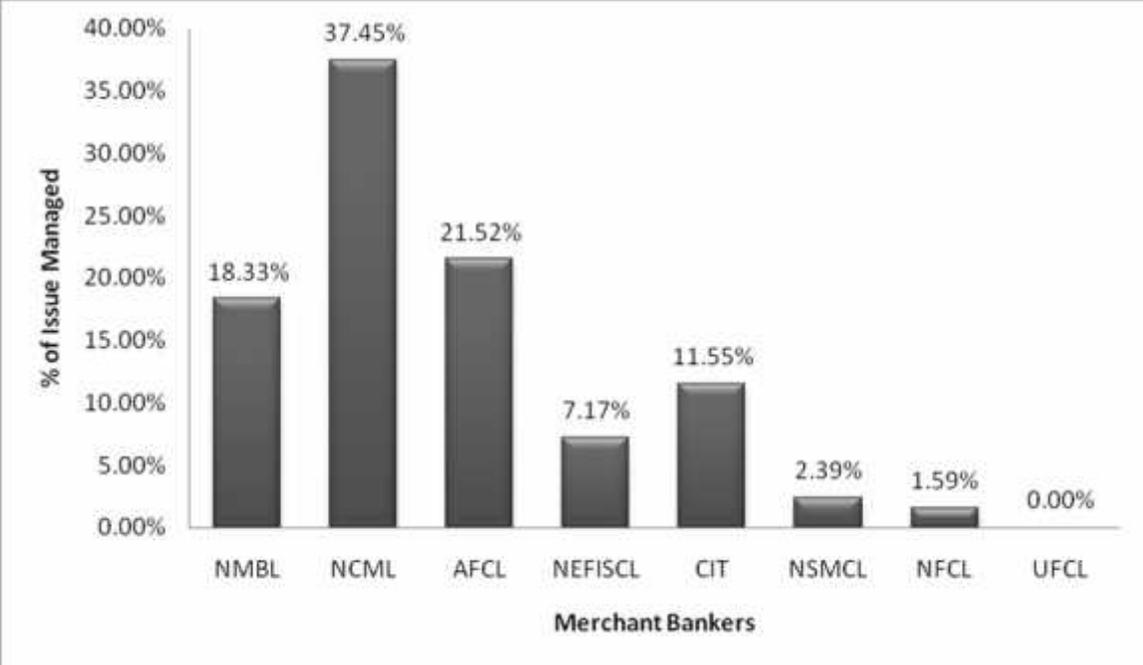
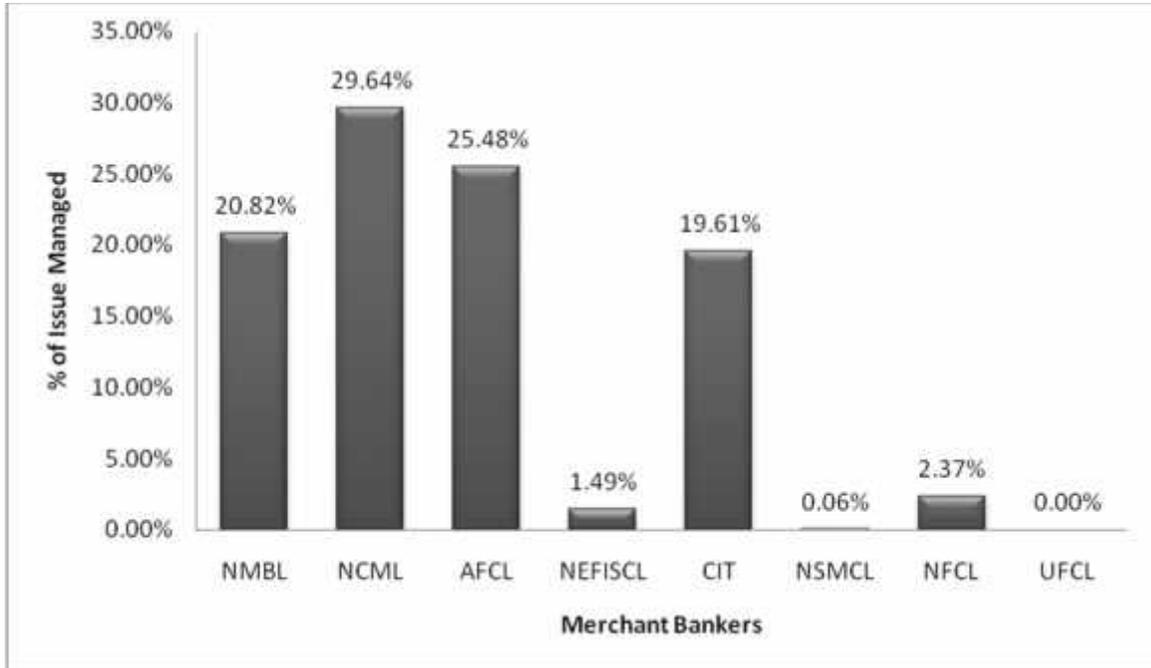


Figure No: 4.6
Amount of Issue Managed



The above table no. 4.4 and figure no. 4.5 explain the variation of issue managed by merchant bankers from the FY 2000/01 to 2009/10. There are 317 issues are approved, from FY 2000/01 to 2009/10. Among them 251 issues are managed by 8 merchant bankers (NMBL, NCML, CIT, AFCL, NEFISCL, NFCL and UFCL). Among 8 merchant bankers, NCML managed 94 issues (37.45%), AFCL managed 54 issues (21.52%), and NMBL managed 46 issues (18.33%). UFCL did not manage any issue. 4 (1.59%), 6 (2.39%), 18 (7.17%) and 29 (11.55%) issues are managed by NFCL, NSMCL, NEFISCL and CIT respectively.

From the above table no. 4.4 and figure no. 4.6 can be analyzed as among the 8 issue managers, one issue manager UFCL does not manage any issue. NCML has managed the largest amount that is Rs.11548.72 million (29.64%). After that AFCL has managed Rs.9927.8 million (25.48%). NMBL and CIT have managed 8114.93 million (20.82%) and Rs. 7643.33million (19.61%) respectively. After all NFCL, NEFISCL and NSMCL

have managed nominal amount Rs.923. 3 million (2.37%), Rs.581.62million (1.49%) and Rs.230.1million (0.06%) respectively.

4.1.1.1.5 Turnover of Securities

Turnover of the securities is a very important security market indicator which deals the transaction of securities in a fiscal year. Also deals the percentage turnover on market capitalization. The details are as follows;

Table No: 4.5
Turnover of Securities

Fiscal Year	Annual Turnover	% Turnover on Market Capitalization
2000/01	2344.2	5.06
2001/02	1540.6	4.44
2002/03	575.8	1.63
2003/04	2144.3	5.18
2004/05	4507.7	7.35
2005/06	3451.4	3.57
2006/07	8360.1	4.48
2007/08	22820.8	6.23
2008/09	21681.2	4.22
2009/10	-	-
Total	67426.1	42.16

(Source: SEBON Annual Report, 2010)

The above data can be present in following figure.

Figure No: 4.7
Annual Turnover of
Securities

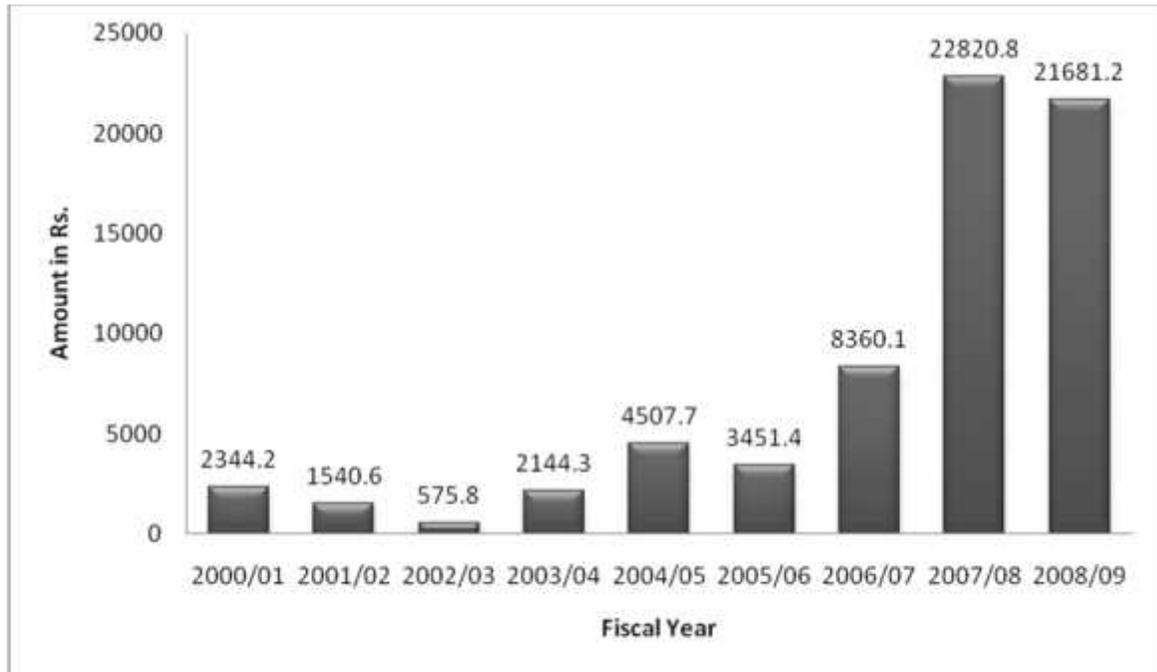
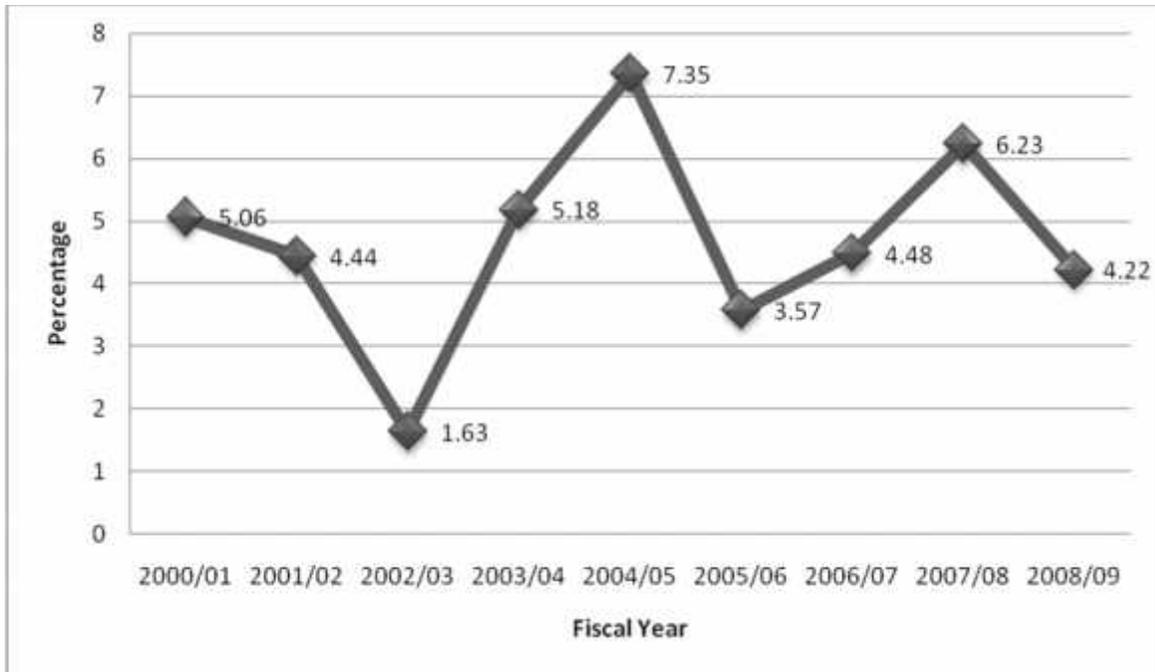


Figure No: 4.8
% Turnover on Market Capitalization



The above table no. 4.5 and figure no.4.7 shows the variation of the annual turnover of the securities from the year 2000/01 to 2008/09. In the fiscal year 2002/03 annual turnover is the lowest which is only Rs.575.8 million and 2007/08 annual turnover is largest amount that is Rs. 22820.8 million.

Table no. 4.5 and figure no. 4.8 shows the variation of the % turnover on market capitalization. The lowest % turnover on market capitalization is in the year 2002/03 is only 1.63%. The highest % turnover on market capitalization is in the year 2004/05 is 7.35%.

4.1.1.2 Secondary Market Trend

Secondary market is the market for the existing securities. Second hand securities are bought and sold in the secondary market. Its main function is to provide liquidity to the purchasers of securities. This market remains as a centre to convert stocks, bonds, and other securities into cash immediately. Since the secondary market provides liquidity to the securities, the investors are encouraged to buy securities in the primary market.

4.1.1.2.1 Market Capitalization and Securities Transaction

Securities market plays a very important role in national economic growth and GDP. How does the securities market contribute the national income (NI)? The details are as follows;

Table No.: 4.6**Market Capitalization and Securities Transaction**

FY	Market Capitalization(Rs. in millions)	Market Capitalization (%)	% of Market Capitation on GDP at Nominal Price	Securities Transaction Amount (Rs. in millions)	%
2000/01	46349.4	2.67	10.5	2344.2	3.03
2001/02	34703.8	2.00	7.5	1540.6	2.00
2002/03	35240.4	2.03	7.16	575.8	0.07
2003/04	41424.8	2.38	7.72	2144.3	2.77
2004/05	61365.9	3.53	10.41	4507.7	5.83
2005/06	96813.7	5.57	14.80	3451.4	4.46
2006/07	186301.3	10.72	25.6	8360.1	10.82
2007/08	366247.5	21.08	44.9	22820.8	29.52
2008/09	512939	29.53	51.74	16928.1	21.90
2009/10	383912	20.48	-	14627.8	18.92
Total	1765298	100		77300.8	100

(Source: Economy Survey 2010)

The above data can be present in following figures;

Figure No: 4.9
% of Market Capitalization

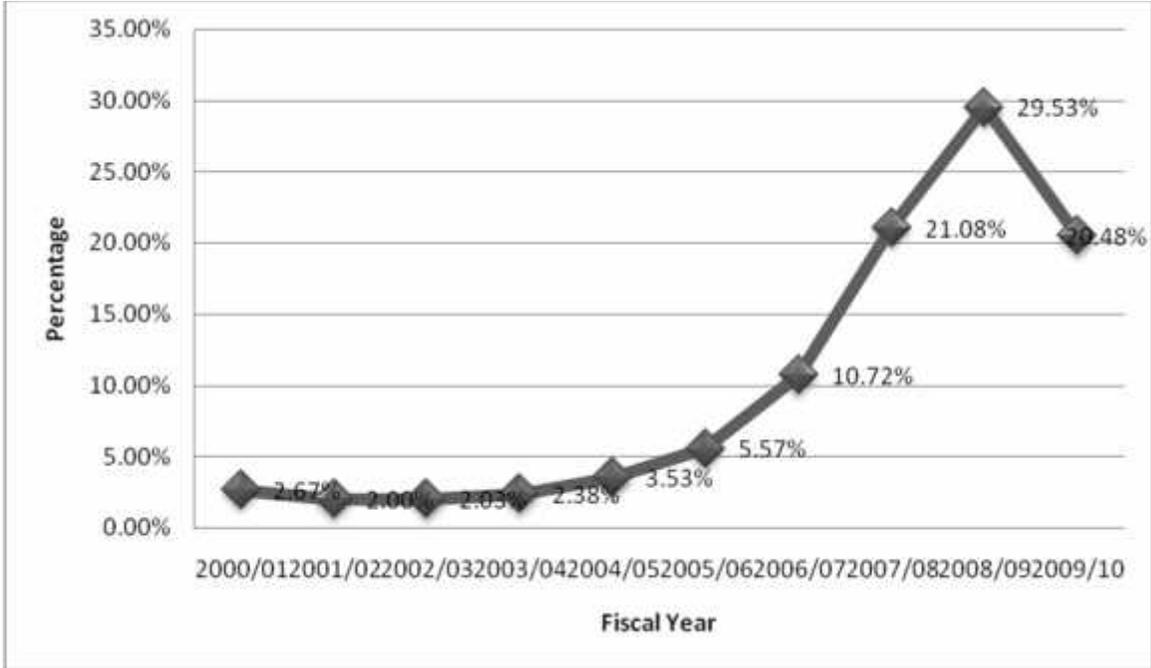


Figure No: 4.10
% of Market Capitalization on GDP at Nominal Market Price

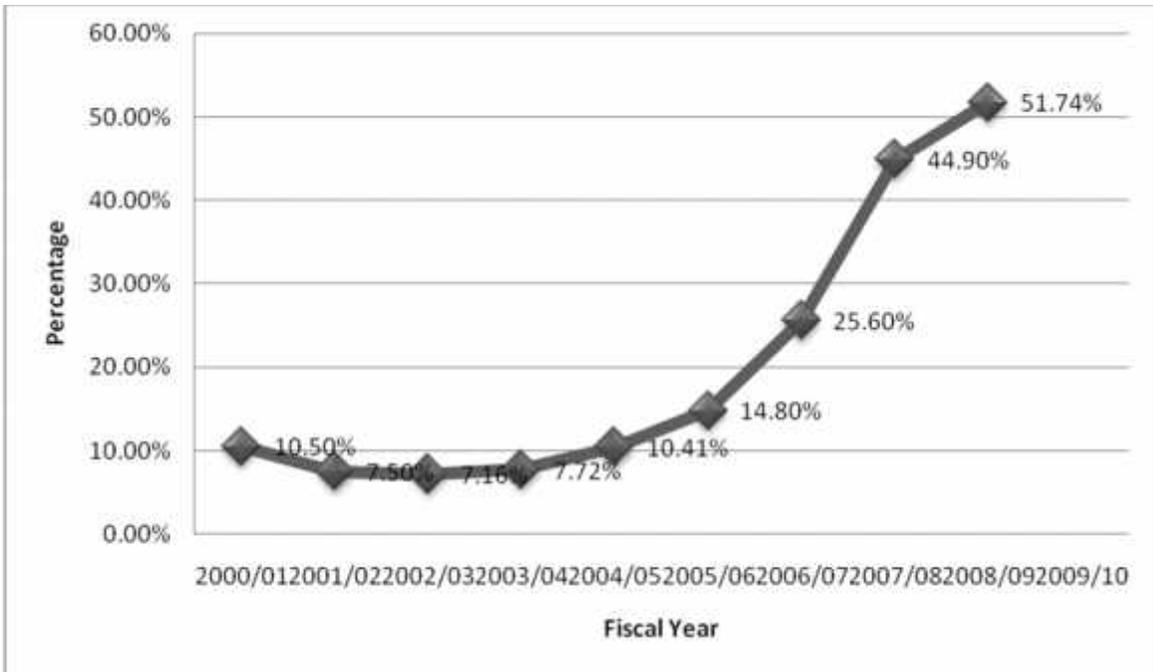
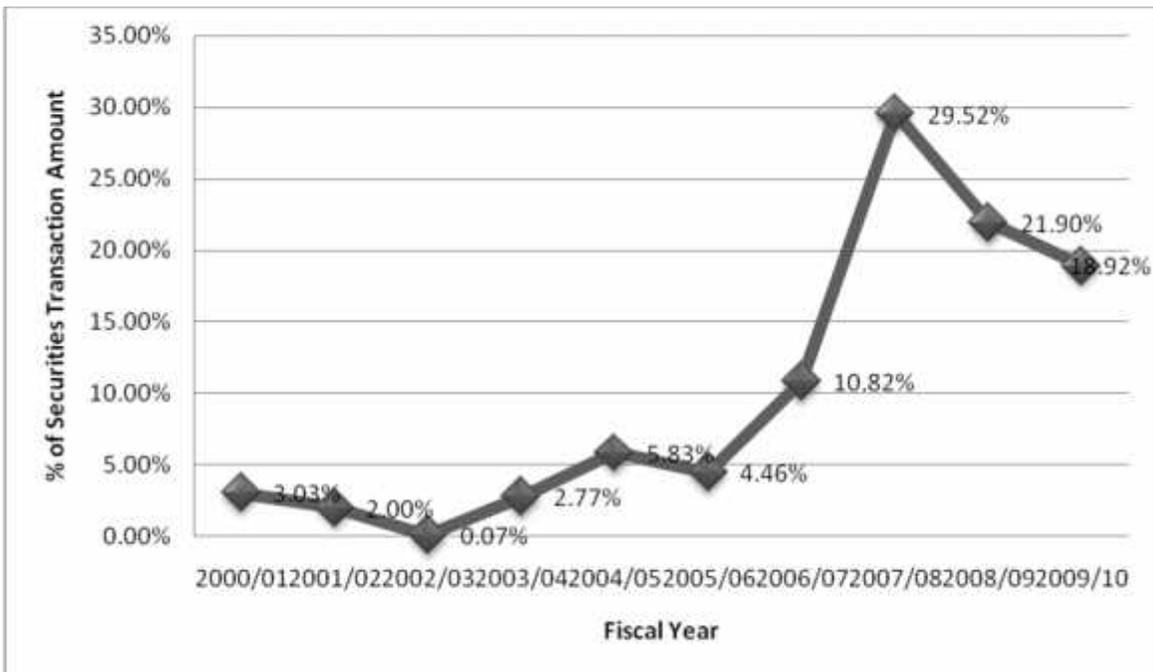


Figure No: 4.11
Securities Transaction Amount



The above table no. 4.6 and figure no. 4.9 describes the market capitalization of securities from the fiscal year 2000/01 to 2009/10. Among these years greater amount is to be capitalized in the year 2008/09 which is amounting to Rs.512939 million (29.53%). Minimum amount is to be capitalized in the fiscal year 2001/02 which is only Rs. 34703.8 million (2.00%). The curve is upward slopping up to FY 2008/09. After that the market capitalization curve is starting to dawn ward.

Table no. 4.6 and Figure no. 4.10 present the variation of % of market capitalization on GDP at nominal price. The above curve is upward sloping. It shows that beginning year 2000/01, there is 10.50% after that starts to fall to 7.16% in the fiscal year 2002/03. The wide range is between the year 2006/07 and 2007/08 which is 19.30% (44.90%-25.60%). Top most % of market capitalization on GDP is in the fiscal year 2008/09 that is 51.74%.

Table no. 4.6 and figure no. 4.11 show the variation of annual securities transaction from the period 2000/01 to 2008/09. At the end of the fiscal year 2009/10, total amount of securities transaction is Rs. 77300.8 million. Among these years the greatest amount transaction is Rs. 22820.8 million (29.52%) in FY 2007/08. And the lowest securities transaction amount is in the FY 2002/03 which is Rs. 575.8 million (0.07%).The figure also explains, securities transaction ratio is high in between the year 2006/07 and 2007/08 that is nearly to 3 times.

4.1.1.2.2 Total Number of Listed Companies and NEPSE Index

Securities Act, 2007 has made mandatory that the issuing company should be listed in NEPSE for the purpose of secondary transaction. There are 171 companies are listed in NEPSE at the end of the fiscal year 2009/10.

NEPSE index is a very important secondary market indicator, which deals the secondary transaction of securities. The base year of the index is 1993 in 100 points. The details of the index and listed companies are as the following table;

Table No: 4.7

Total Number of Listed Companies and NEPSE Index

Fiscal Year	Total Number of Listed Companies	NEPSE Index (in points)
2000/01	115	348.4
2001/02	96*	227.5
2002/03	108	204.86
2003/04	114	222.04
2004/05	125	286.67
2005/06	135	386.86
2006/07	135	683.95
2007/08	142	963.36
2008/09	159	749.10
2009/10	171	476.69

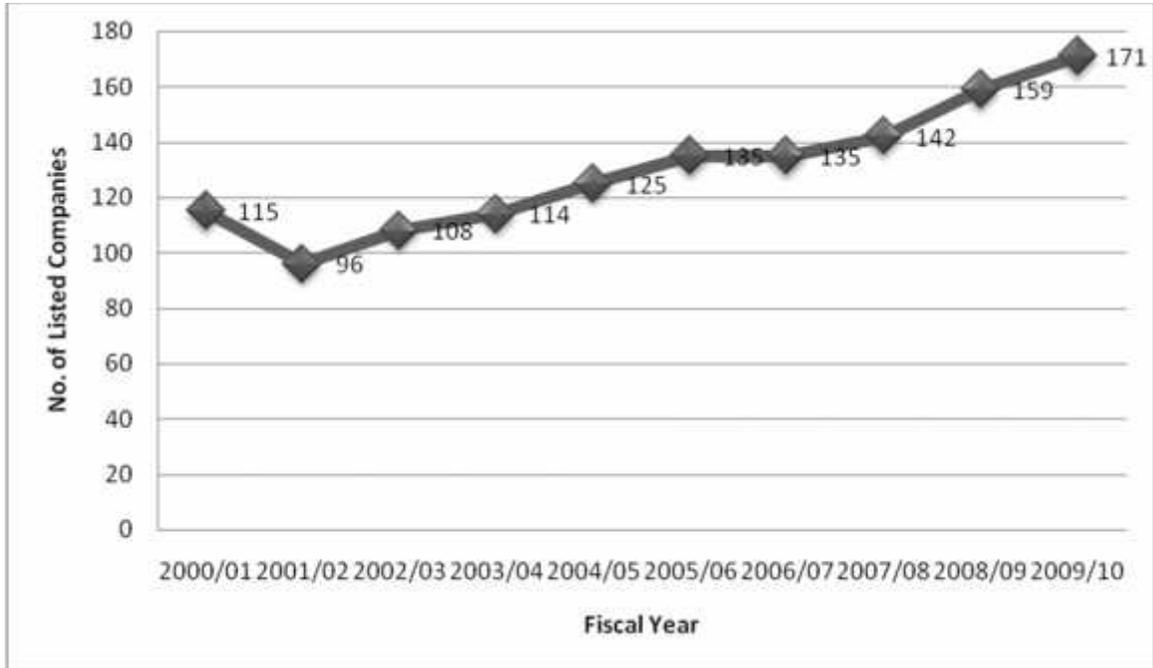
(Source: NEPSE Annual Report 2010)

*delisting of 25 companies

Base year is 1993 which has 100 points.

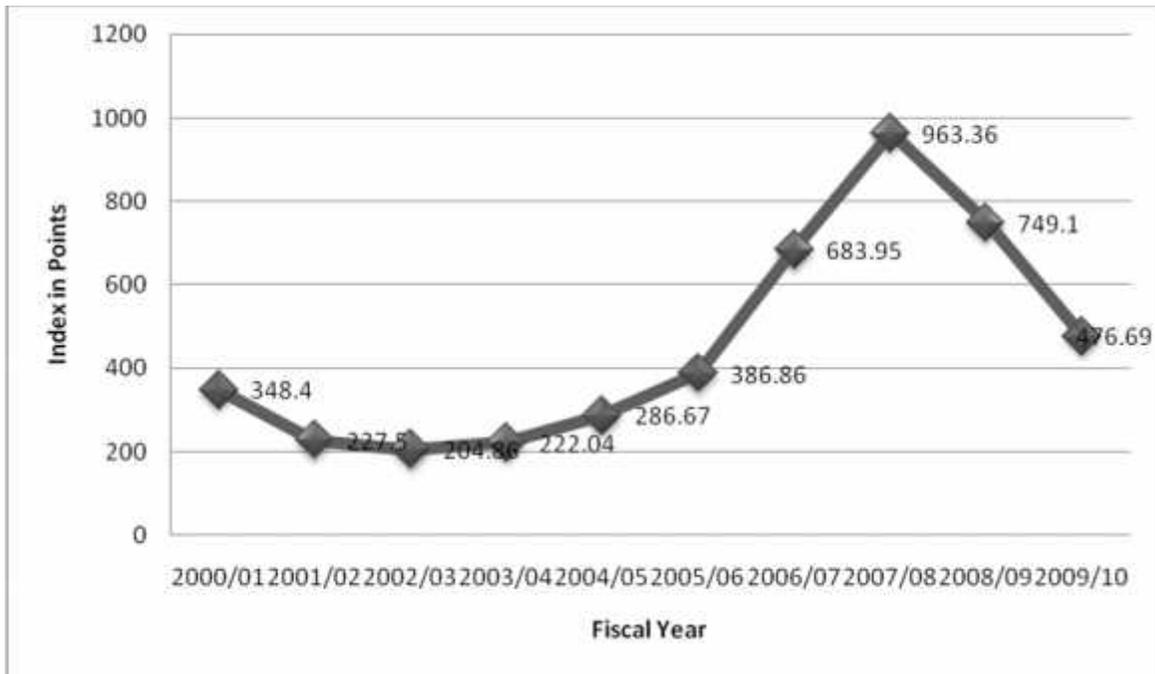
The above data can be present in following figures;

Figure No: 4.12
Total Number of Listed Companies



The above table no. 4.10 and figure no. 4.12 can help to explain the number of listed companies in NEPSE for the secondary transaction. At the end of FY 2009/10 there are 171 listed companies. In the beginning year there are 115 companies are appeared. Than after only 96 organized institutions are listed in NEPSE. In the fiscal year 2005/06 and 2006/07, no other organized institutions added.

Figure No: 4.13
NEPSE Index



The table no. 4.10 and figure no. 4.13 shows the variation of NEPSE index from the fiscal year 2000/01 to 2009/10. The curve meets the pick point in the fiscal year 2007/08 that is 963.36 points. A lowest point meets in the fiscal year 2002/03 that is 204.86 points. The index falls to 749.1 points in the fiscal year 2008/09 and falls to 476.69 points in the FY 2009/10.

4.1.1.3 Sector-Wise Issue Approved

SEBON categorized nine sectors for the purpose of securities transaction. There are 171 companies listed in the NEPSE. List, transaction and market capitalization of the different sectors are given in the table below;

Table No: 4.8
Sector -Wise Issue Approved (Rs. in millions)

S.N.	Sector	Listed Company	%	Transaction	%	Market Capitalization	%
1	Commercial Bank	23	13.45	12406.45	57.22	30221929	58.12
2	Development Bank	36	21.05	2740.36	12.64	2713789	5.29
3	Finance Company	62	36.26	2615.40	12.07	4300713	8.38
4	Insurance Company	18	10.53	212.80	0.98	1053749	2.05
5	Hydro Power	4	2.34	-	-	-	-
6	Manufacture & processing	18	10.53	26.08	0.12	770609	1.50
7	Trading	4	2.34	33.49	0.15	169636	0.33
8	Hotel	4	2.34	18.69	0.08	485195	0.95
9	Other	2	1.17	3627.87	16.74	11578288	22.57
Total		171	100	21681.14	100	51293907	100

(Source: Annual Report of NEPSE and SEBON 2010)

The above table can be presented are following figures;

Figure No: 4.14

Sector Wise Listed Companies

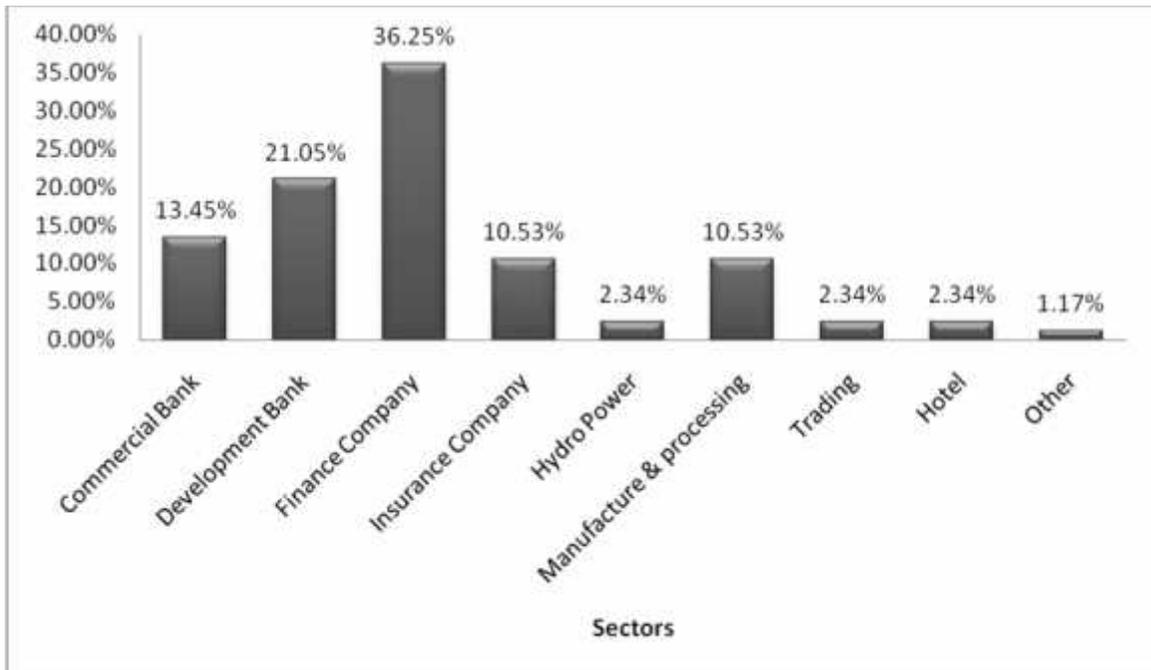


Figure No: 4.15

Sector Wise Transaction Amount

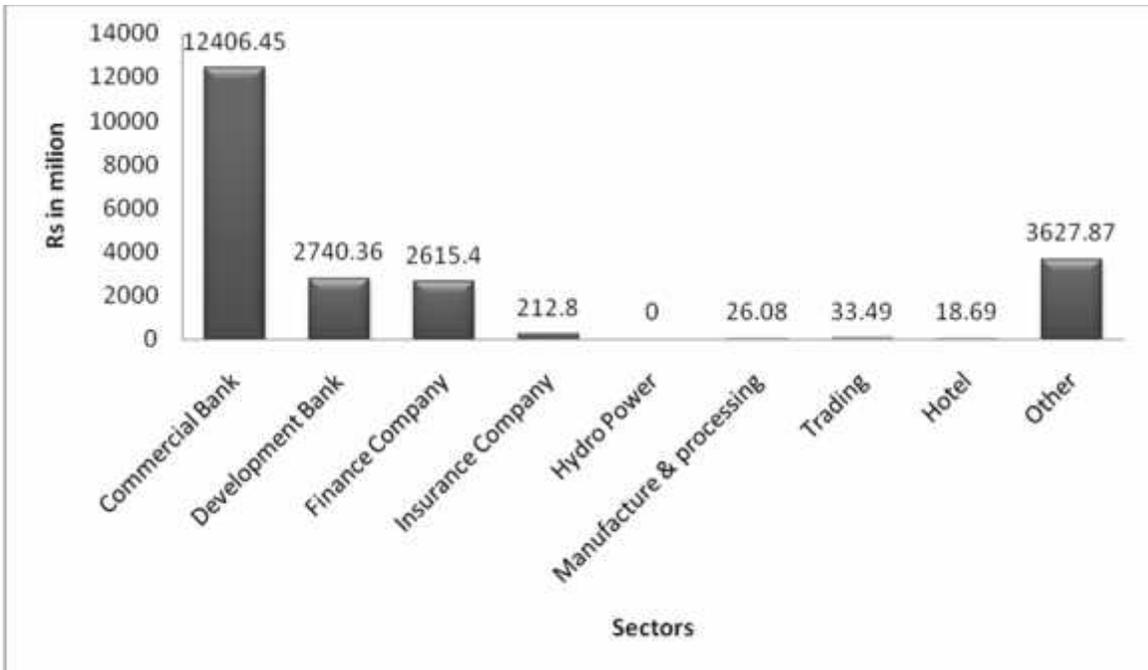
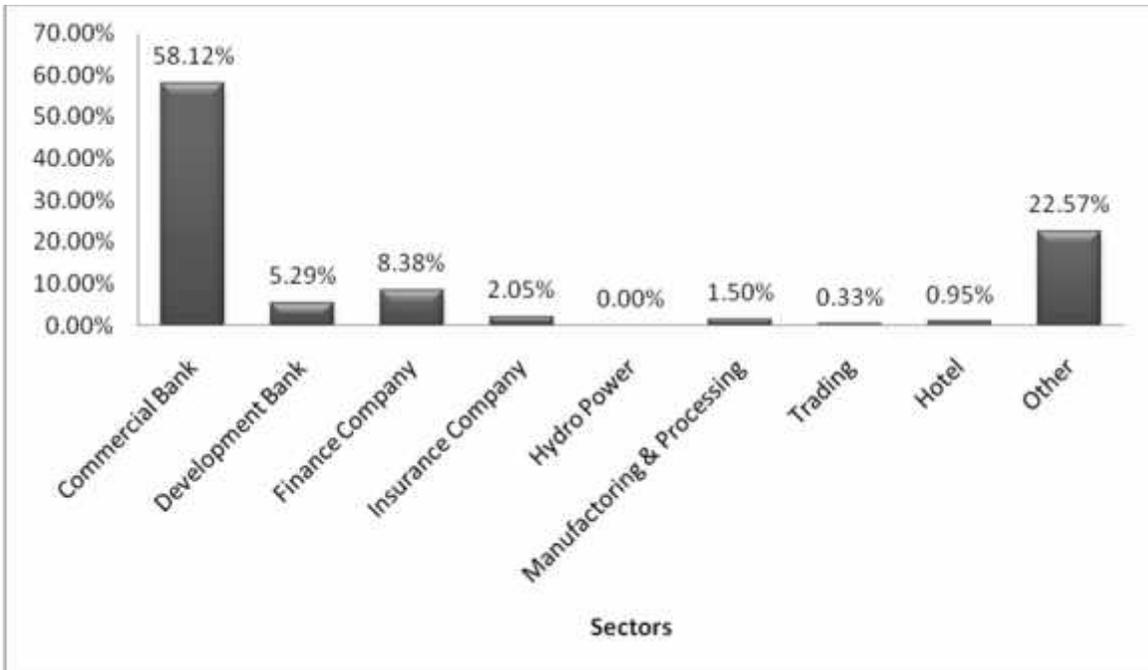


Figure No: 4.16

Sector Wise Market Capitalization



The above table no. 4.7 and figure no. 4.14 can help to explain the group wise number of listed companies. Among the listed institutions, finance company, development bank and commercial bank dominate top three companies those have 62 (36.26%), 36 (21.05%) and 23 (13.45%) respectively. It also indicates that financial group appears in first. Among 171 listed companies financial sector has occupied 159 while non financial sector has occupied only 32 companies.

Table no. 4.7 and figure no. 4.15 shows the variation of transaction amount of group wise listed companies. Financial sector runs smoothly. Commercial bank company highly dominant the amounting Rs. 12406.45 million (57.22%). Other takes second position with amounting Rs. 3627.87 million (16.74%). After that transaction of development bank and finance company and insurance company are Rs.2740.36 million (12.64%), Rs.2615.40 million (12.07%) and Rs.212.80 million (0.98%) respectively. Non financial sector is dominated by the financial sector.

Table no. 4.7 and figure no. 4.16 show the market capitalization of group wise listed companies. Total market capitalization is amounting Rs. 512939907 million. While financial sector contributes 73.84%, market capitalization of non financial sector is only 26.16%. Market capitalization of commercial bank is high which is amounting Rs. 30221929 million (58.12%).

4.2 Need and Required of Primary Study

Primary data are taken to give more reliable outlook to the research. To meet the objectives of the study Questionnaire should be made. Questionnaire method is used to get the primary data, the result of which area as below. Only 120 respondents are taken for the data collection around the Kathmandu valley. The following research has been performed by the primary data collection.

4.3 Primary Data Analysis

Primary data is data that has not been previously published, i.e. the data is derived from a new or original research study and collected at the source, e.g., in marketing, it

is information that is obtained directly from first-hand sources by means of surveys, observation or experimentation.

4.3.1 General Knowledge about IPO

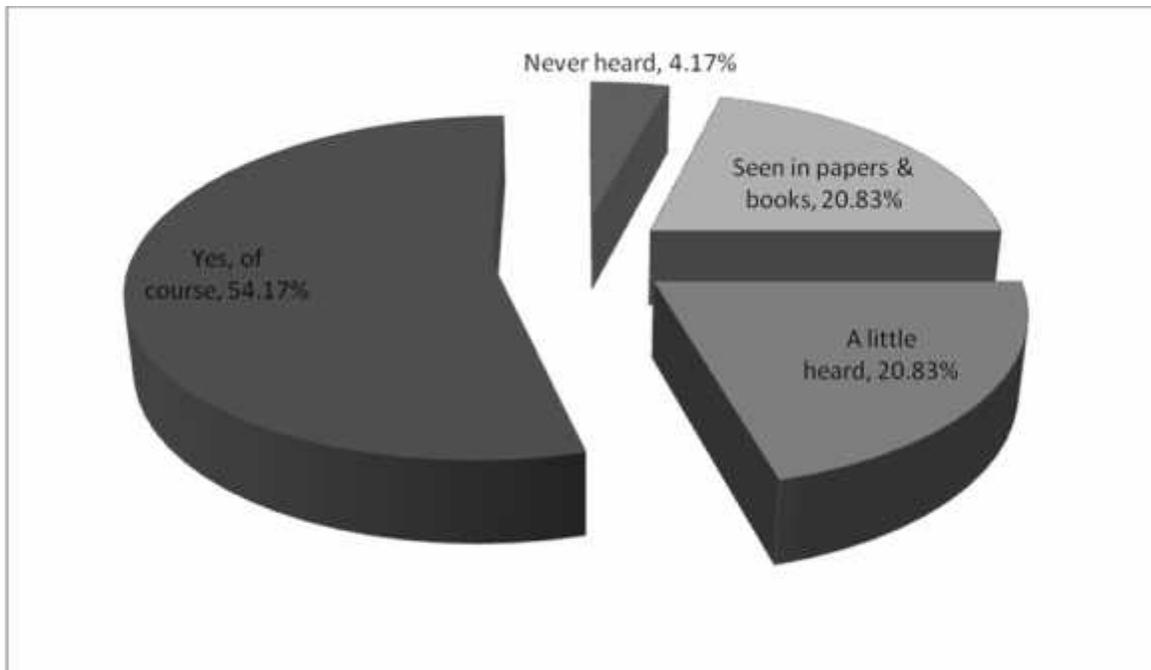
To test the general knowledge of public to the initial public offering and capital market, I have designed the question; “Have you ever heard about IPO?” The responses of respondents are as follows;

Table No: 4.9
General Knowledge about IPO

S.N.	Opinions	No. of Respondents	Response (%)	Rank
a	Yes, of course	65	54.17	I
b	Seen in paper & books	25	20.83	II
c	A little heard	25	20.83	II
d	Never heard	5	4.17	III
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.17
General Knowledge about IPO



The above table no. 4.9 and figure no. 4.17 provide the information knowledge about IPO. While getting information about if people had heard about IPO from 120

respondents 5 persons (4.17%) said they have never heard about IPO, 25 persons (20.83%) said seen in papers & books, 25 persons (20.83%) and the rest 65 persons (54.17%) said that they are well known about IPO. The result yes, of course, a little heard, seen in papers and books and never heard are I, II, and III position respectively.

4.3.2 Source of Information

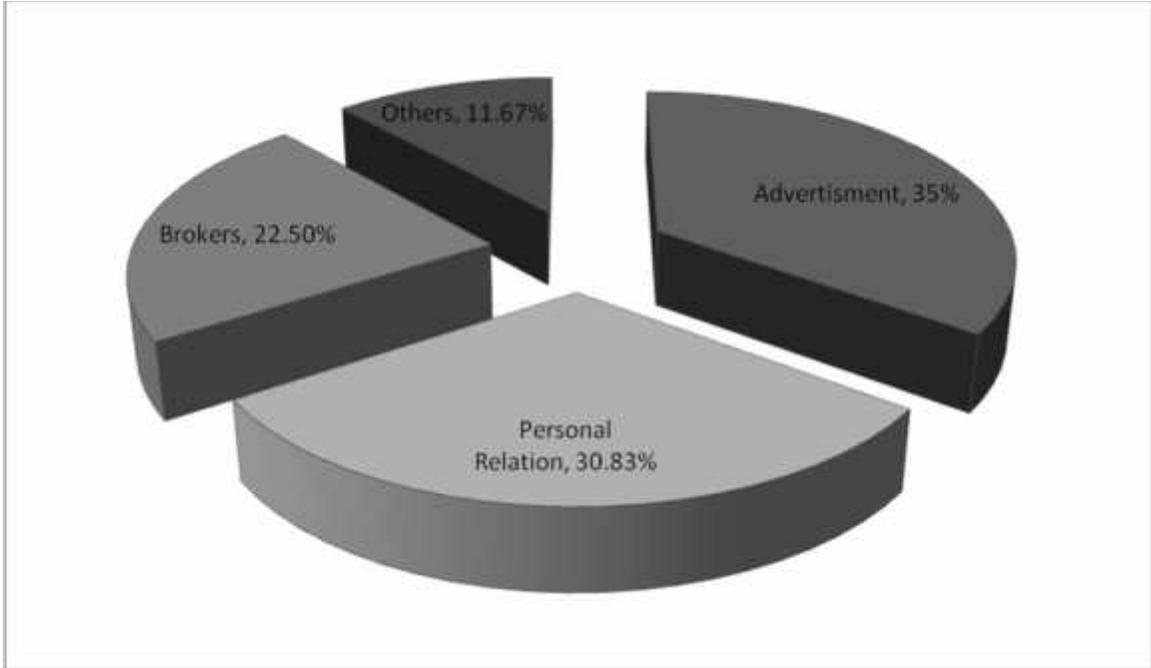
The second question is about source of information people used to know the initial public offering and capital market, I have designed the question; “How do you come to know about IPO of any company?” The responses of the public are as the table below;

Table No: 4.10
Source of Information

S.N.	Sources	No. of Respondents	Response (%)	Rank
a	Advertisements	42	35	I
b	Personal relation	37	30.83	II
c	Brokers	27	22.5	III
d	Others	14	11.67	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.18
Source of Information



The above table no. 4.10 and figure no. 4.18 can help to explain the sources of information. 42 respondents (35%) found the information from advertisement, 37 respondents (30.83%) found the information from personal relation, 27 respondents (22.5%) found the information from the brokers and the rest 14 respondents (11.67%) found the information from the other sources. People get information about IPO from different sources. The source advertisement, personal relation, brokers and others are I, II, III and IV position respectively.

4.3.3 Interest to invest in IPO

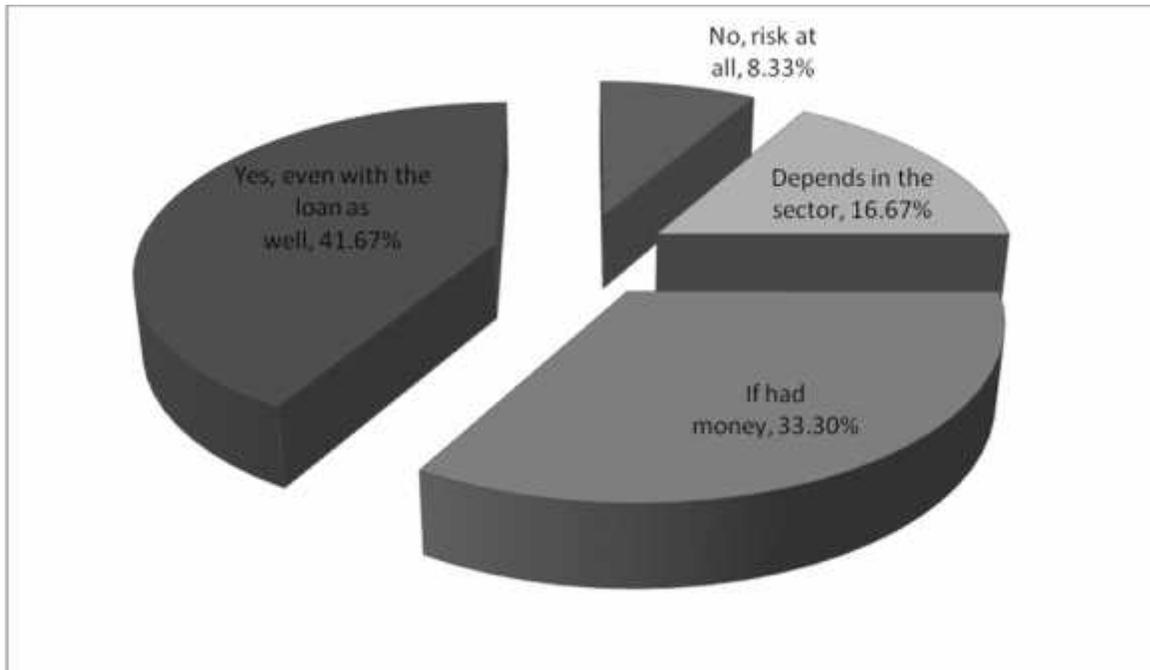
To test the interest of public to the initial public offering and capital market, I have designed the question; “Would you like to invest in IPO?” The responses are as follows;

Table No: 4.11
Interest to Invest in IPO

S.N.	Opinions	No. of Respondents	Response (%)	Rank
a	Yes, even with the loan as well	50	41.67	I
b	If had money	40	33.33	II
c	Depends in the sector	20	16.67	III
d	No, risk at all	10	8.33	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.19
Interest to Invest in IPO



From the above table no 4.11 and the figure no 4.19, we can explain that only 10 respondents (8.33% in IV position) are found to be risk averter, they do not want to take risk at all from investing in IPO. 20 respondents (16.67% in III position) state that they want to invest if they had money. 40 respondents (33.33% in II position) state that their interest to invest depends upon the sector. Rest 50 respondents (41.46% in I position) state that they are willing to invest in IPO even with the loan if not had money.

4.3.4 Market Preference

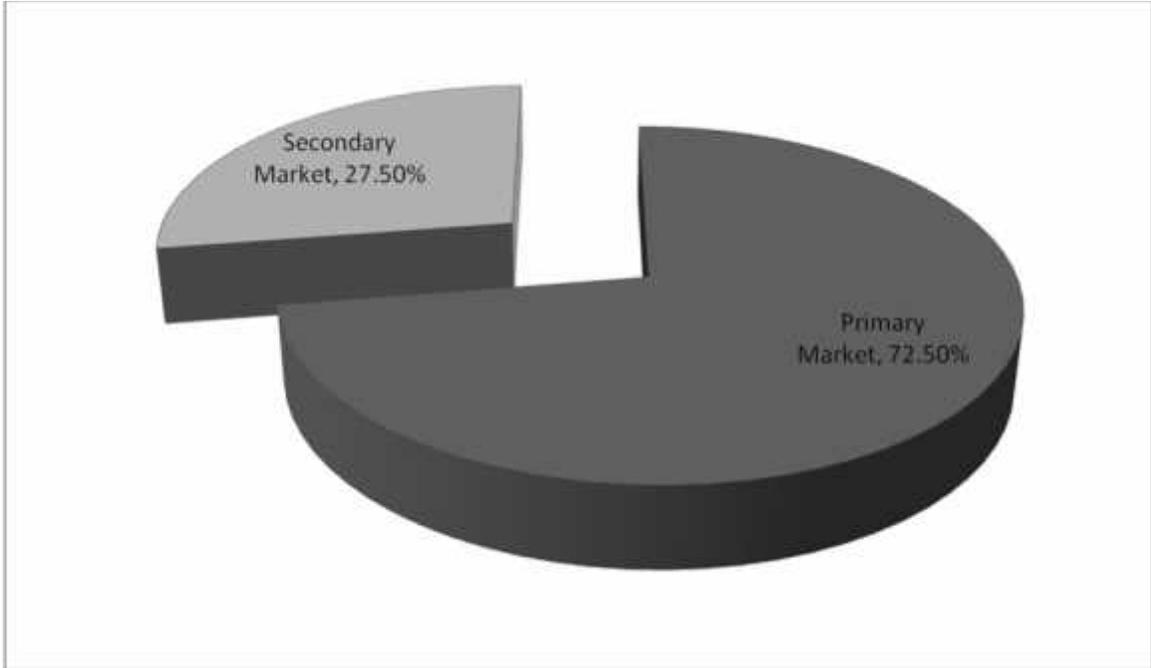
I have designed the question; “Which market would you prefer?” for testing market preference of public to the initial public offering and capital market. The detail of the public response is in the table below;

Table No: 4.12
Market Preference

S.N.	Options	No. of Respondents	Response (%)	Rank
a	Primary Market	87	72.5	I
b	Secondary Market	33	27.5	II
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.20
Market Preference



In the above table no. 4.12 and figure no. 4.20 can help to explain the market preference of the public in IPO and capital market. 72.5% (i.e. 87 respondents) prefer the primary market to invest that is first in position and 27.5% (33 respondents) prefer the secondary market to invest that is second in position.

4.3.5 Instrument Preference

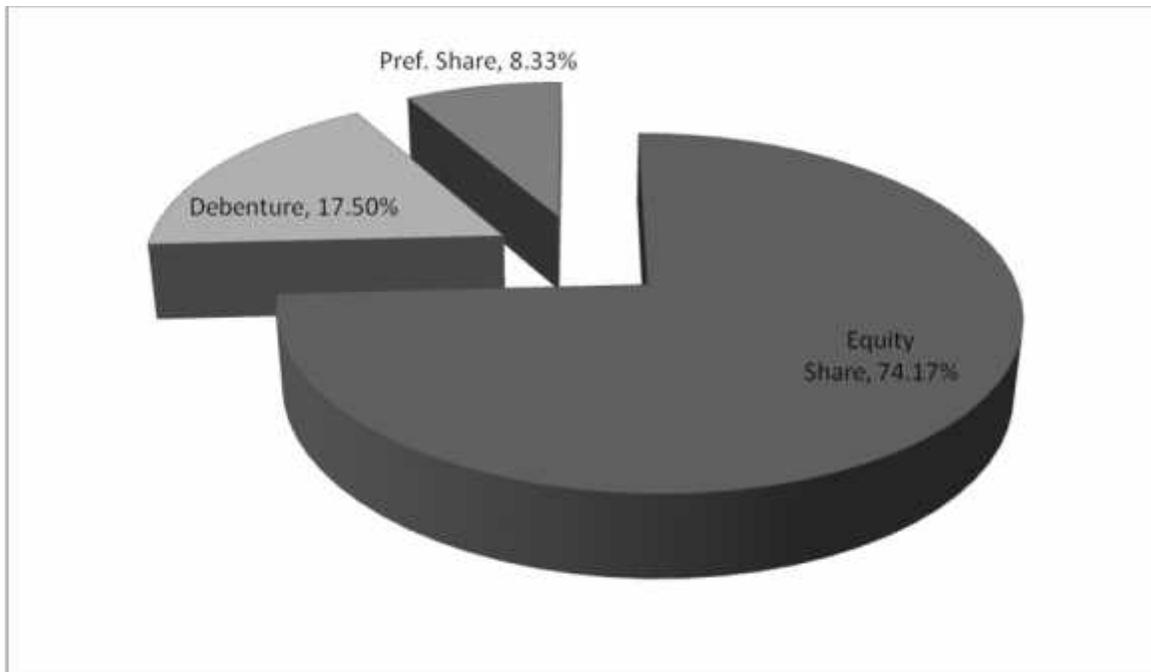
For testing instrument preference of people to the initial public offering and capital market, I have designed the question; “Which instrument would you prefer to invest?” The details of the public response are in the table below;

Table No: 4.13
Instrument Preference

S.N.	Opinions	No. of respondents	Response (%)	Rank
a	Equity Share	89	74.17	I
b	Debenture	21	17.5	II
c	Pref. Share	10	8.33	III
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.21
Instrument Preference



The above table no. 4.13 and figure no. 4.21 help to deal the instrument preference of the people to the IPO and capital market. 74.17% (89 people), 17.5% (21 people), 8.33% (10

people) like to invest in equity share, debenture and pref. share respectively. Equity share is in rank first, debenture second and pref. share third.

4.3.6 Preference of Investors

To test the preference of public to the initial public offering and capital market, I have designed the question; “What comes first in your mind while investing?” The responses of people are as in the following table;

Table No: 4.14
Preference of Investors

S.N.	Opinions	No. of Respondents	Response (%)	Rank
a	Company’s performance	60	50	I
b	Market information	40	33.33	II
c	Promoters	15	12.5	III
d	Brokerage Commissions	5	4.17	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.22
Preference of Investors

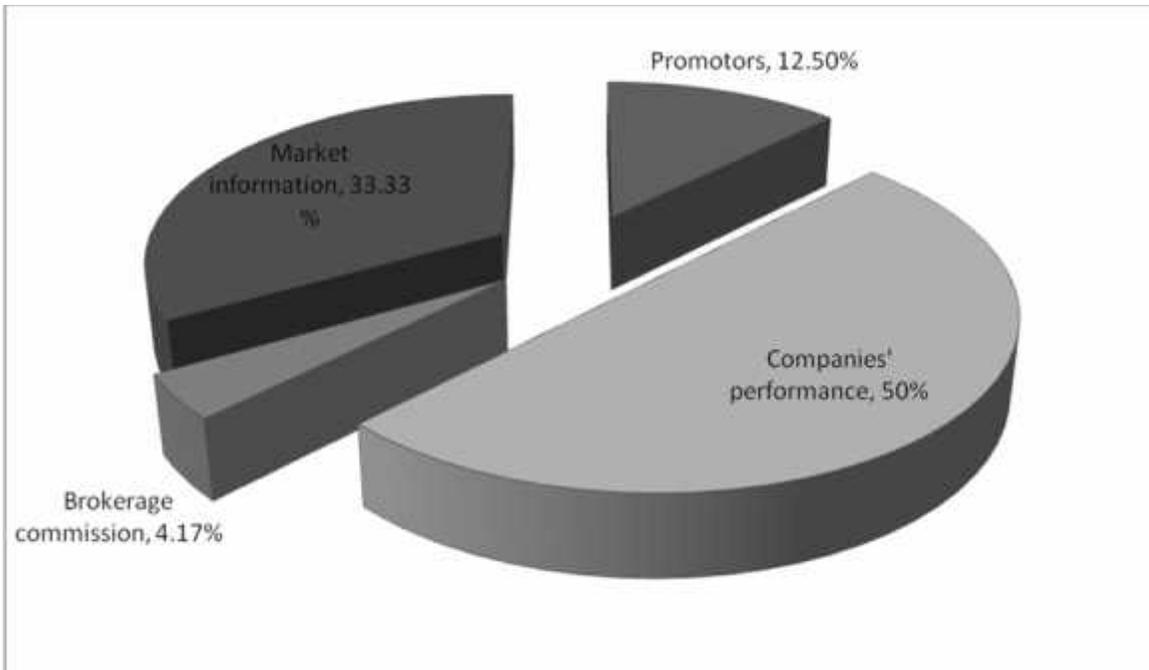


Table no. 4.14 and figure no. 4.22 shows that 15 respondents (12.5%) state that they are interested to know about promoters, 60 respondents (50%) state that their first preference to the companies' performance, 5 respondents (4.17%) state that they want to know about the brokerage commission and the rest all 40 respondents (33.33%) state the market information. While investing in the IPO, they think first companies' preference, market information, promoters and brokerage commission respectively 1st, 2nd, 3rd and 4th in rank.

4.3.7 Fund Used for Investment

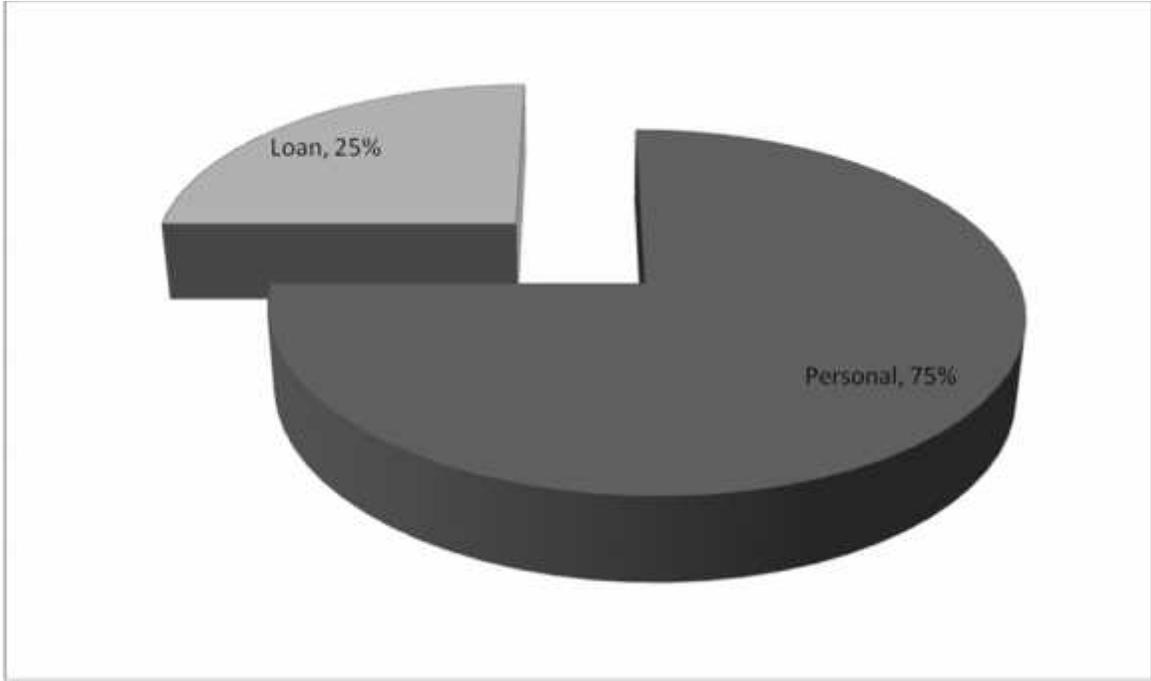
I have designed the question; "Which fund would you like to invest in IPO?" for testing the opinion of public to the initial public offering and capital market. They provide the following information;

Table No: 4.15
Fund Used for Investment

S.N.	Opinions	No. of Respondents	Response (%)	Rank
a	Personal	90	75	I
b	Loan	30	25	II
	Total	120	100	

The above table can be presented as the following figure;

Figure No: 4.23
Fund Used for Investment



The above table no. 4.15 and figure no. 4.23 can help to analyze the fund used in IPO investment out of 120 respondents, 90 respondents (75%) answered personal fund used while the rest 30 respondents (25%) answered credit fund used.

4.3.8 Investing Regulation by Financial Institution via NRB

To test investing regulation of public to the initial public offering and capital market, I have designed the question; “Would you think which one is better for investing regulation Nepal Rastra Bank (NRB) or financial institutions loans?” The details of the public response are in the table below;

Table No: 4.16

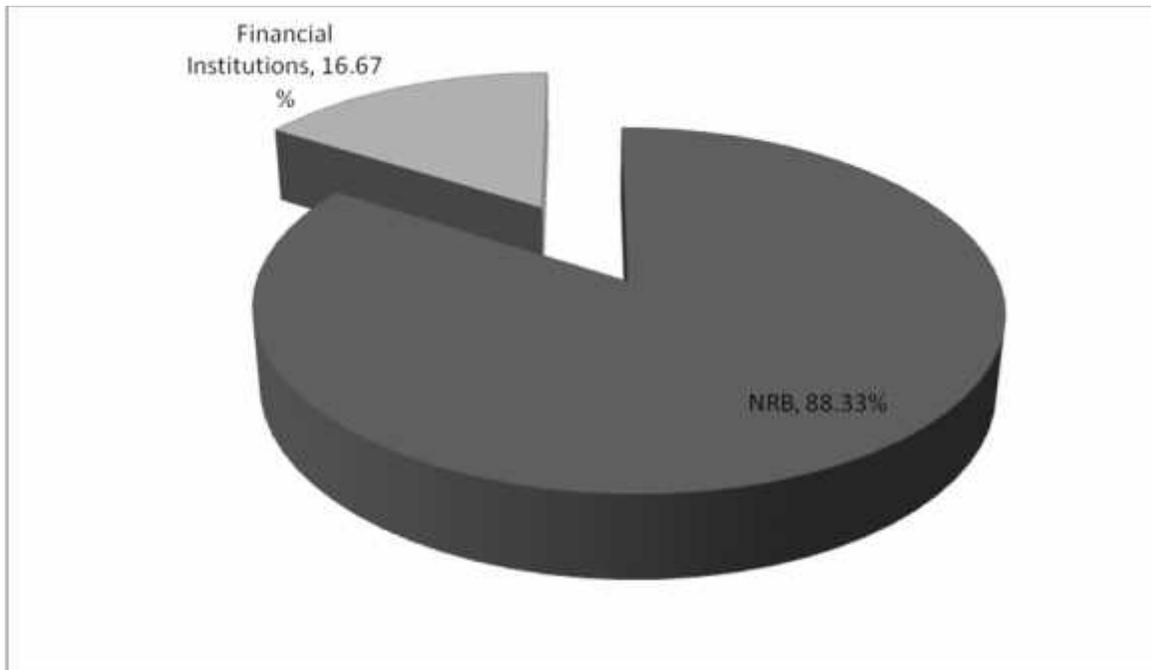
Investing regulation by Financial Institution via NRB

S.N.	Particulars	No. of Respondents	Response (%)	Rank
a	NRB	100	83.33	I
b	Financial Institutions	20	16.67	II
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.24

Investing Regulation by Financial Institution via NRB



In the above table no. 4.16 and figure no.4.24 explain that while asking question whether IPO funding via financial institution should be regulated or not, 100 respondents (83.33%) found to be favor and rest 20 respondents (16.67%) found to be in against of it.

4.3.9 No. of Companies Invested

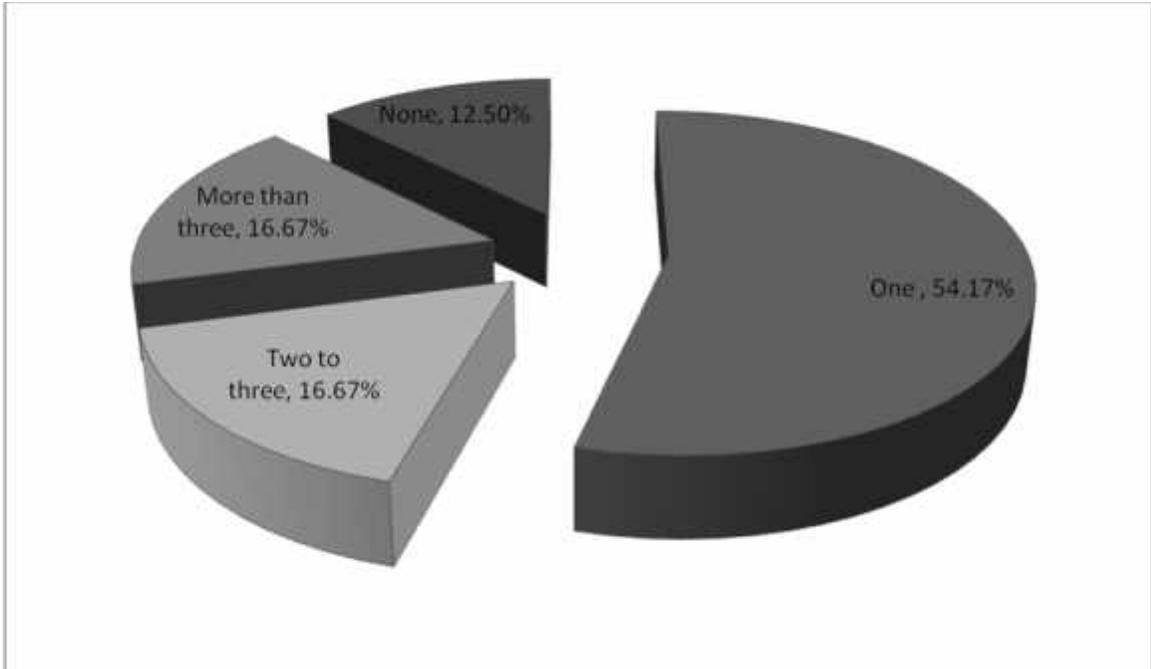
I have designed the question; “How many companies have you invested?” providing four options. The responses of the people are in the table below;

Table No: 4.17
No. of Companies Invested

S.N.	Alternatives	No. of Respondents	Response (%)	Rank
a	One	65	54.17	I
b	Two to three	20	16.67	II
c	More than three	20	16.67	II
d	None	15	12.5	III
Total		120	100	

The above table can be presented as the following figure;

Figure No.: 4.25
No. of Companies Invested



No. of companies are invested by 120 respondents is shown the table no.4.17 and figure no.4.25. Out of 120 respondents, 65 respondents (54.17%) invest in only one company, 20 respondents (16.67%) invest in two to three and more than three. Similarly rest 15 respondents (12.5%) invest none of the company. The most of the people invest in only one company.

4.3.10 Investors' Expectation

For testing the investors' expectation to invest in the initial public offering and capital market, I have designed the question; "What expectation led you to invest?" The details of the public response are as follows;

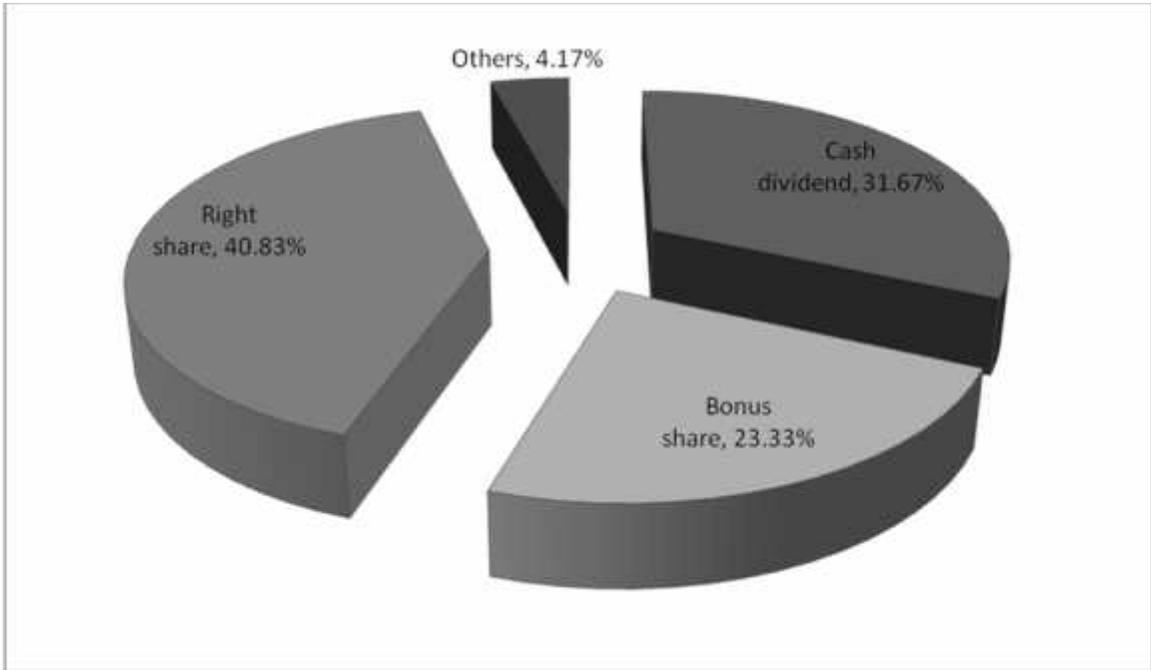
Table No: 4.18
Investors' Expectation

S.N.	Particulars	No. of Respondents	Response (%)	Rank
a	Right Share	49	40.83	I
b	Cash Dividend	38	31.67	II

c	Bonus Share	28	23.33	III
d	Others	5	4.17	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.26
Investors' Expectation



Different people have different expectation behind investing IPO. Details of the information provide the table no. 4.18 and figure no. 4.26. Among 120 respondents, 49 respondents (40.83% or rank I) wants to invest for expecting to the right share 38 respondents (31.67% or rank II) expecting cash dividend, 28 respondents (23.33% or rank III) expecting bonus share, and remaining 5 respondents (4.17% or rank IV) expect to the other.

4.3.11 Investors' Sector Preferences

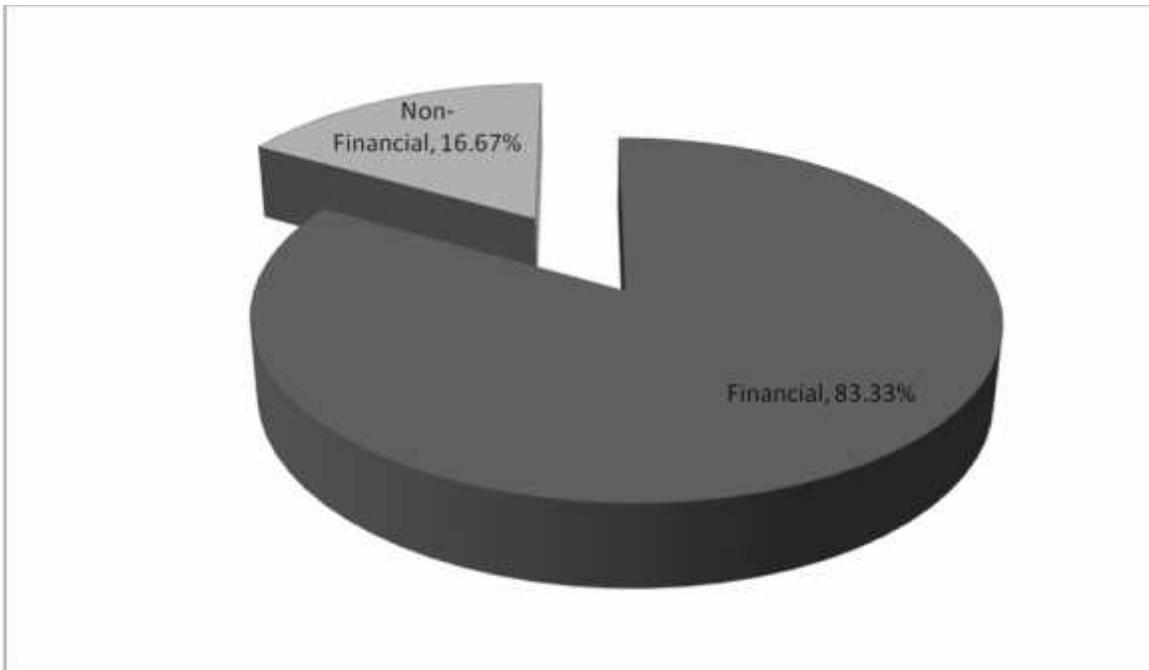
To test the investors' sector preference to the initial public offering and capital market, I have designed the question; "Which sector would you prefer for investment?" The responses of the respondents are in the table below;

Table No: 4.19
Investors' Sector Preferences

S.N.	Sectors	No. of Respondents	Response (%)	Rank
a	Financial	100	83.33	I
b	Non financial	20	16.67	II
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.27
Investors' Sector Preferences



The above table no. 4.19 and figure no. 4.27 provide the information about the sector preference of the public. While asking the question about sector preference of public, out of 120 respondents, 100 respondents (83.33%) are interested to invest in financial sector and rest 20 respondents (16.67%) are interested to invest in non financial sector. Most of the people choose the financial sector to invest rather than non financial sector.

4.3.12 Preferred Financial Sector

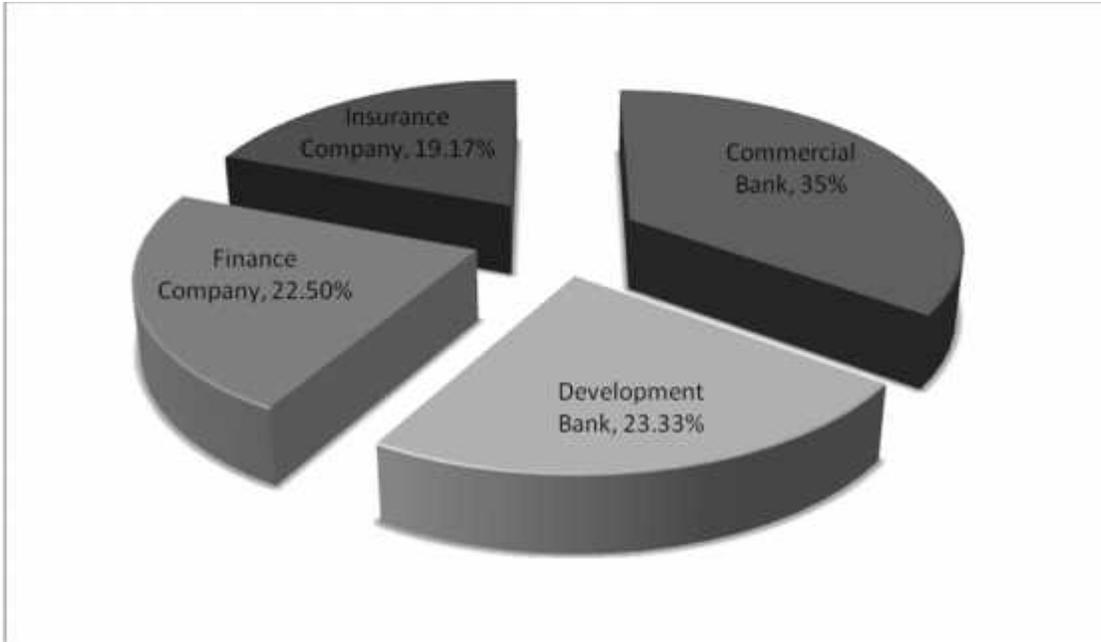
I have designed the question; “If you prefer to invest in financial sector than in what type?” with four options Commercial Bank, Development Bank, Finance Company and Insurance Company. The opinions of the respondents are given in the following table;

Table No: 4.20
Preferred Financial Sector

S.N.	Sectors	No. of Respondents	Response (%)	Rank
a	Commercial Bank	42	35	I
b	Development Bank	28	23.33	II
c	Finance Company	27	22.5	III
d	Insurance Company	23	19.17	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.28
Preferred Financial Sector



In the above table no. 4.20 and figure no. 4.28 , for the question which type of financial sector would you prefers to invest, 42 respondents (35%), 28 respondents (23.33%), 27 respondents (22.5%) and 23 respondents (19.17%) are preferred to commercial bank, development bank, finance company and insurance company respectively. Commercial Bank, development Bank, Finance Company and Insurance Company are 1st, 2nd, 3rd and 4th in position respectively.

4.3.13 Preferred Non Financial Sector

Some people are interested to invest in non financial sector. To test their opinion about non financial sector, I have designed the question; “If you prefer to invest in non-financial sector than in what type?” the responses of the respondents are in the following table;

Table No: 4.21
Preferred Non Financial Sector

S.N.	Sectors	No. of Respondents	Response (%)	Rank
a	Manufacturing	57	47.5	I

b	Trading	39	32.5	II
c	Hotels	20	16.67	III
d	Others	4	3.33	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.29
Preferred Non Financial Sector

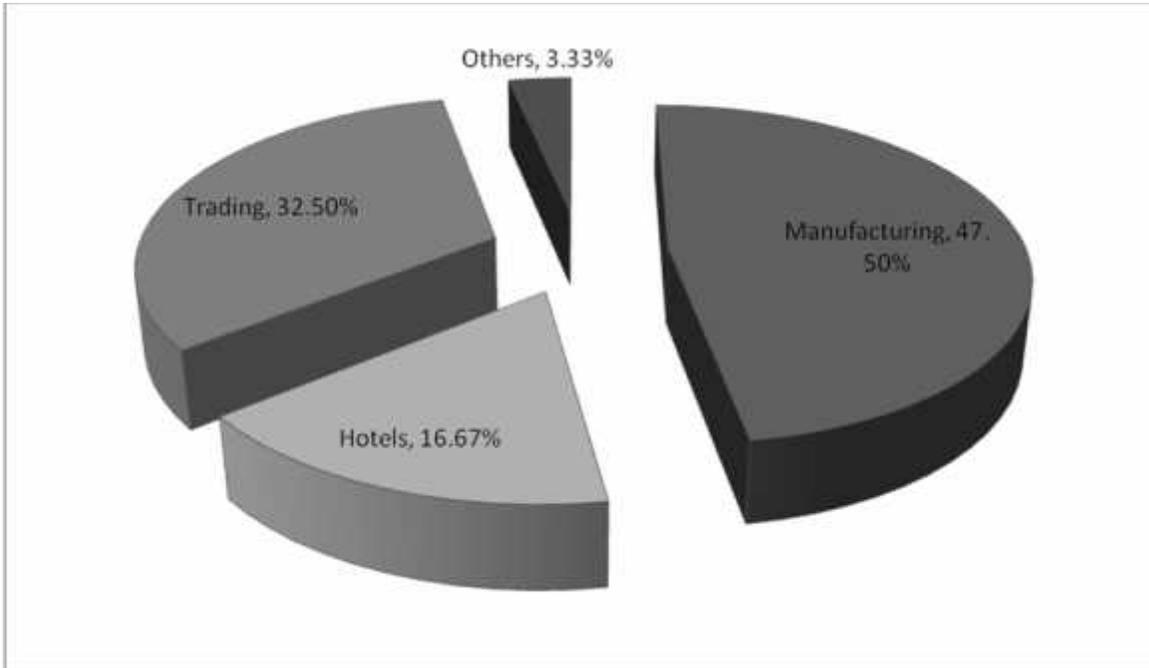


Table no.4.21 and figure no. 4.29 can help to explain about the respondents' preference to invest in non- financial sector. 57 respondents (47.5%) preferred to invest in manufacturing company, 39 respondents (32.5%) preferred to invest in trading, 20 respondents (16.67%) preferred to invest in hotels and rest 4 respondents (3.33%) interested to invest in others. Most of the people prefer Manufacturing Company and second preference in Trading. After that 3rd preference of the public is in Hotel and the last preference is in others.

4.3.14 Purpose of Investment

To test why the people invest in the initial public offering and capital market, I have designed the question; "What purpose does led to invest in IPO and capital market?" the details of the public response are in the table below;

Table No: 4.22

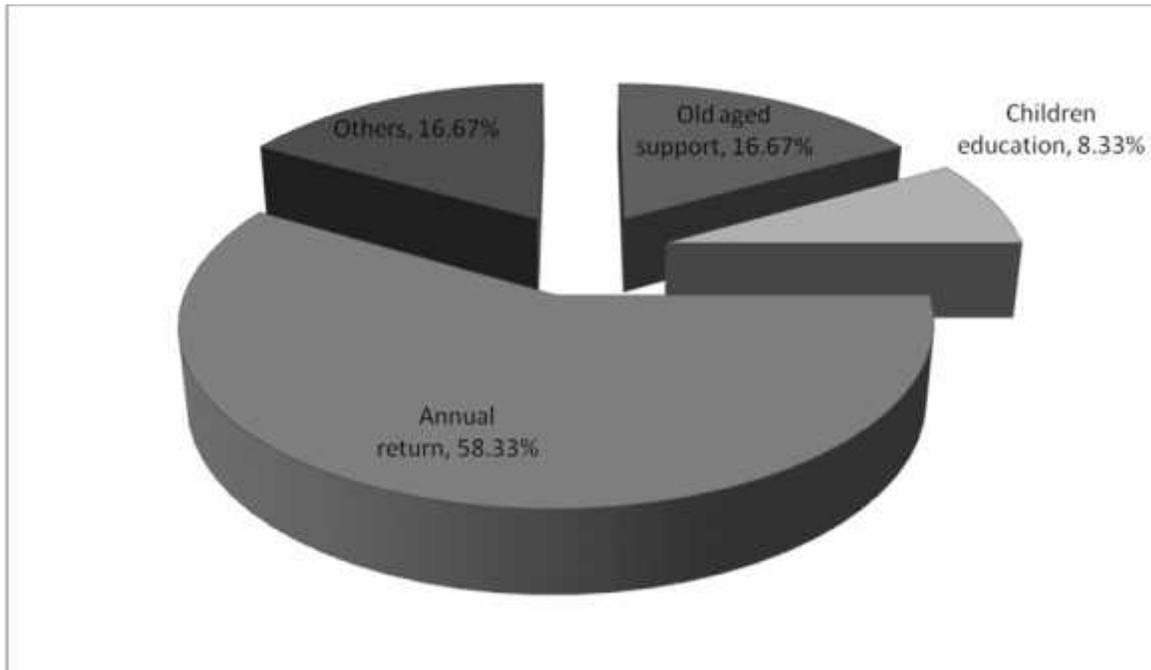
Purpose of Investment

S.N.	Purpose	No. of Respondents	Response (%)	Rank
a	Annual return	70	58.33	I
b	Old aged support	20	16.67	II
c	other	20	16.67	II
d	Children education	10	8.33	III
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.30

Purpose of Investment



Out of 120 respondents, 70 respondents (58.33% or 1st position) are wanted to invest for getting annual return, 20 respondents (16.67% or 2nd position) are wanted to invest for support old age, 20 respondents (16.67% or 2nd position) are wanted to invest with the

other goal and rest 10 respondents (8.33% or 3rd position) are wanted to invest for children' education.

4.3.15 Distribution of Shares

For testing the opinion about the basis of share distribution, I have designed the question; “Which basis would you prefer for the distribution of shares?” The responses of the respondents are as follows;

Table No: 4.23

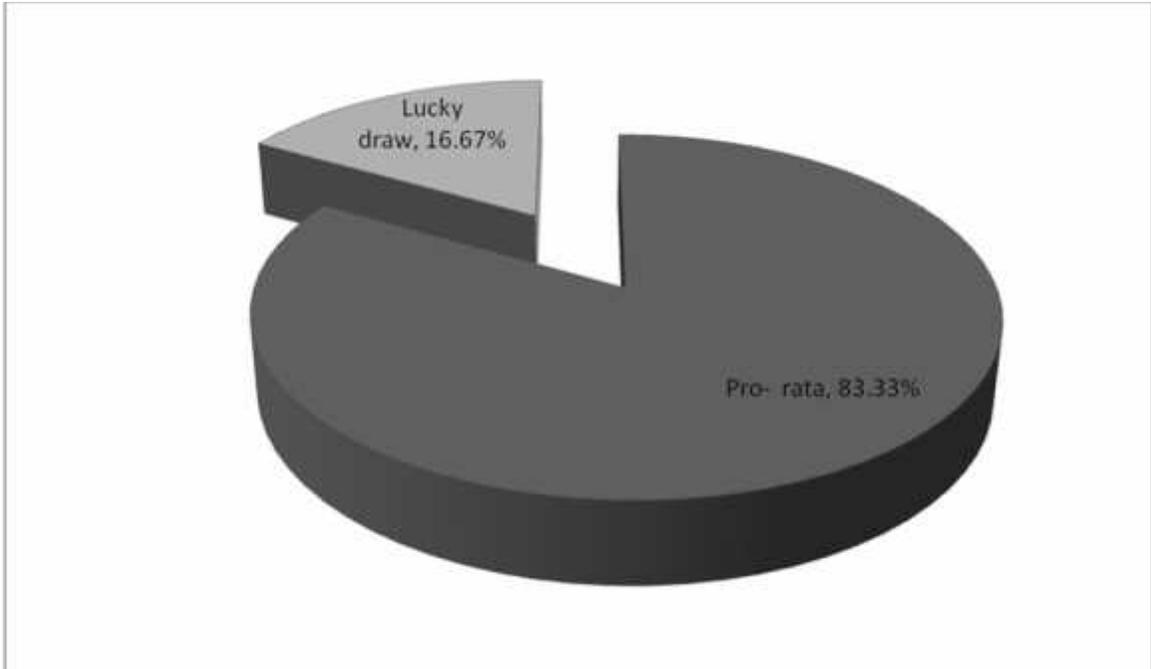
Distribution of Shares

S.N.	Basis	No. of Respondents	Response (%)	Rank
a	Pro-rata	100	83.33	I
b	Lucky draw	20	16.67	II
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.31

Distribution of Shares



For the question would you prefer pro-rata and lucky draw basis for the distribution shares, 100 respondents (83.33%) are answered the pro-rata basis and Only 20 respondents (16.67%) answered lucky draw basis for the share distribution. Most of the people like the pro-rata basis to share distribution rather than lucky draw basis.

4.3.16 Reason for Not Going Public

I have designed the question; “Why most of the companies do not like going in public?” to test the public opinion. The details are as follows;

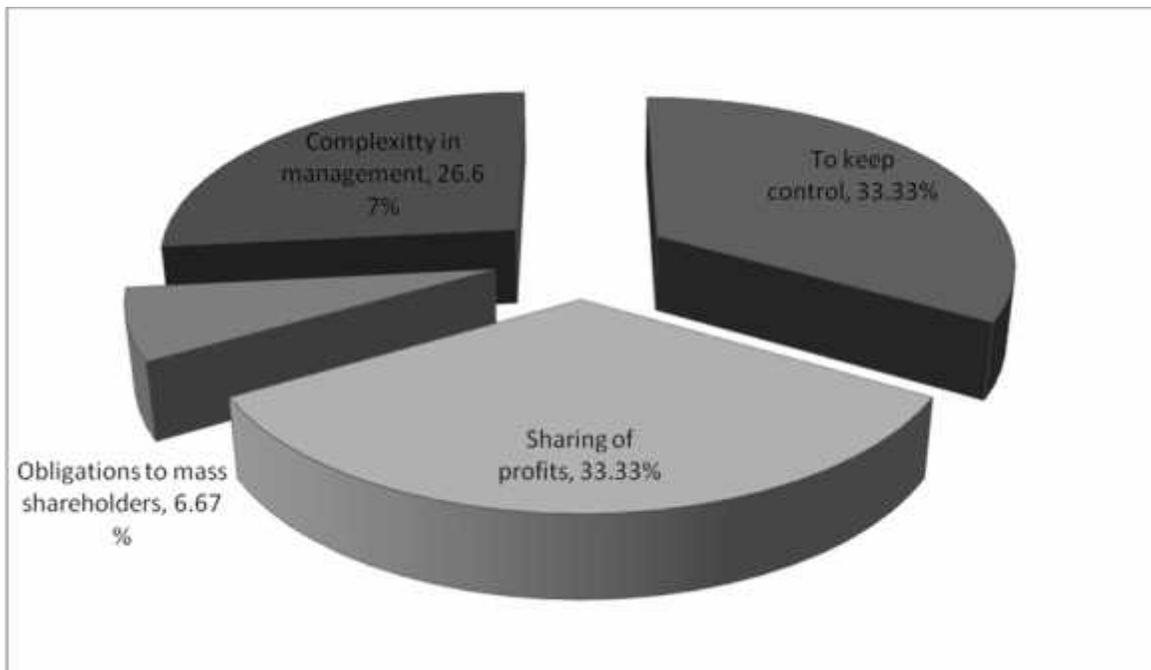
Table No: 4.24
Reason for Not Going Public

S.N.	Reasons	No. of Respondents	Response (%)	Rank
a	To keep Control in Management	40	33.33	I
b	Sharing of Profits	40	33.33	I
c	Complexity in Management	32	26.67	II

d	Obligations to mass shareholders	8	6.67	III
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.32
Reason for Not Going Public



The above table no. 4.24 and figure no. 4.32 help to describe the detail about company does not going to public. Out of 120 respondents, 40 respondents (33.33%) state to keep control and sharing of profits, 8 respondents (6.67%) state obligation to mass shareholders and remaining 32 respondents (26.67%) state complexity in management. To keep control and sharing of profits is in rank 1st, complexity in management in 2nd and obligation to mass shareholders in 3rd.

4.3.17 Growth of Nepalese Capital Market

To test the public opinion about the growth of capital market, I have designed the question; “Nepalese capital market is.....

- a) Steady
- b) Slowly Growing
- c) Rapidly Growing

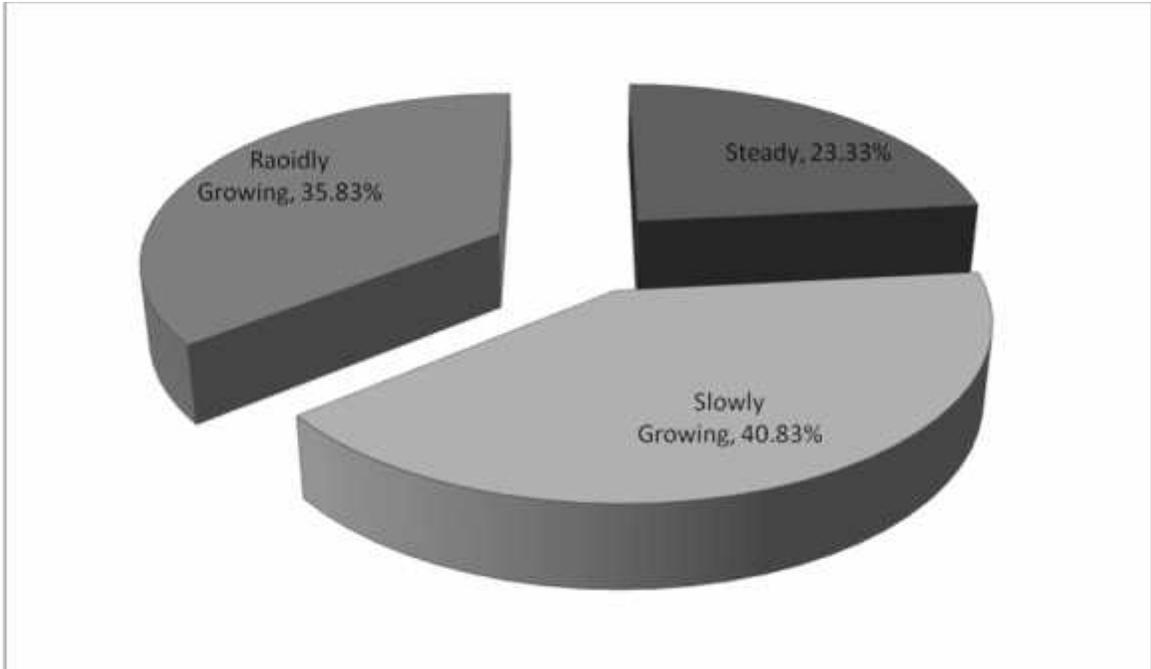
They provide the following information;

Table No: 4.25
Growth of Nepalese Capital Market

S.N.	Growth	No. of Respondents	Response (%)	Rank
a	Slowly Growing	49	40.83	I
b	Rapidly Growing	43	35.83	II
c	Steady	28	23.33	III
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.33
Growth of Nepalese Capital Market



The above table no. 4.25 figure no. 4.33 can help to explain the different opinion of the respondents of capital market growth. Out of 120 people 28 (23.33%) respondent state that the capital market is steady, 49 (40.83%) respondents answered slowly growing and 43 (35.83%) respondent said growing rapidly. Slowly growing is in 1st rank, rapidly growing 2nd and steady 3rd.

4.3.18 Reasons for Limited Investors

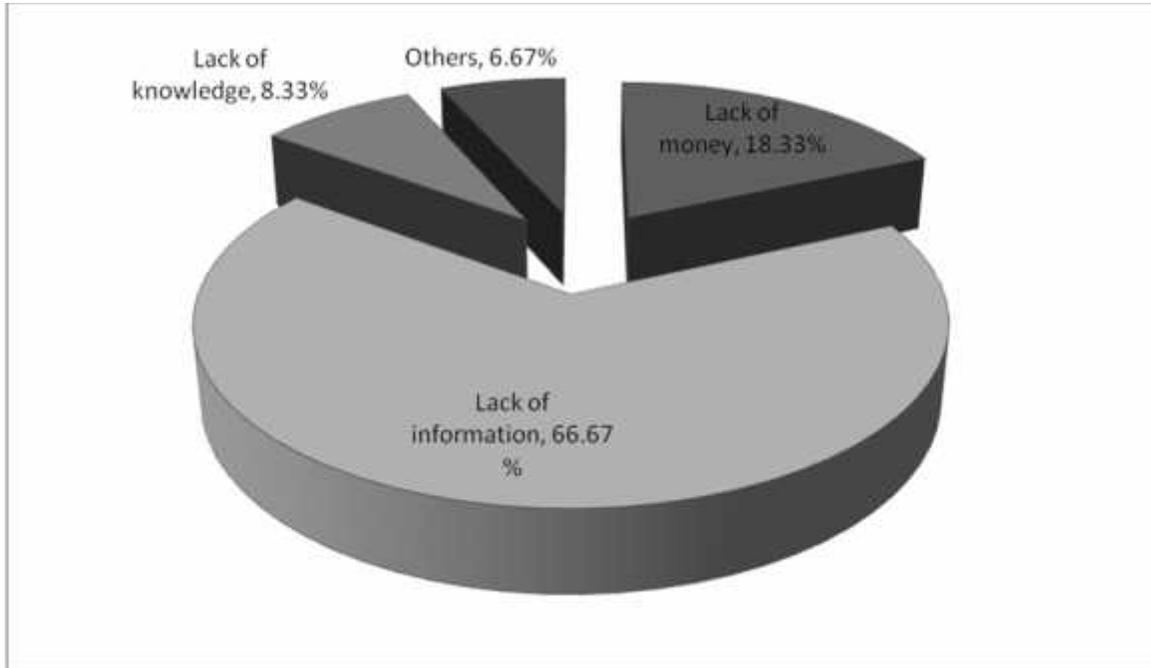
There are limited investors in Nepalese capital market. Why do the limited investors only invest? To know the reason, I have designed the question; “What do you think about only limited numbers of people invest in the primary market?” The responses of the people are in the table below;

Table No: 4.26
Reasons for Limited Investors

S.N.	Reasons	No. of Respondents	Response (%)	Rank
a	Lack of information	80	66.67	I
b	Lack of money	22	18.33	II
c	Lack of knowledge	10	8.33	III
d	Others	8	6.67	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.34
Reasons for Limited Investors



The above table no. 4.22 and figure no. 4.32 provide the detail information about reasons for limited IPO investors. Out of 120 respondents, 22 respondents (18.33%) said lack of money, 80 respondents (66.67%) said lack of information, 10 respondents (8.33%) said lack of knowledge and the other 8 respondents (6.67%) said others. Most of the people favor in the lack of information.

4.3.19 Major Challenge of Capital Market

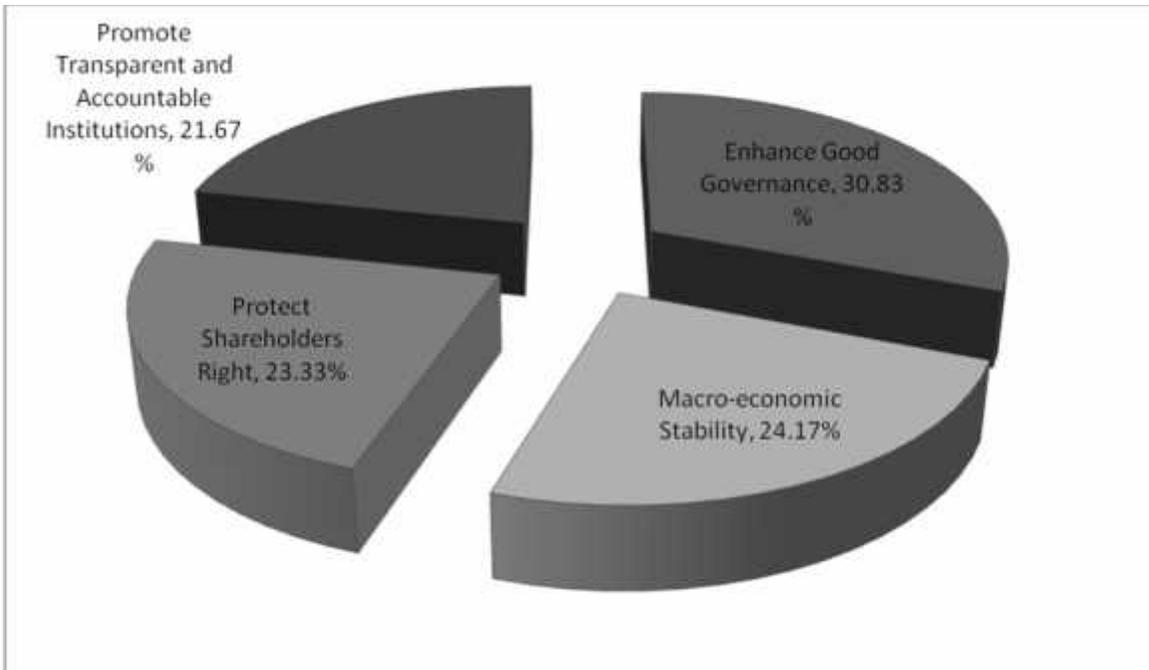
“What is the major challenge of capital market?” The question has been designed to know the challenge of capital market in Nepal. The details of the response are in the table below;

Table No: 4.27
Major Challenge of Capital Market

S.N.	Challenges	No. of Respondents	Response (%)	Rank
a	Enhance Good Governance	37	30.83	I
b	Macro-economic Stability	29	24.17	II
c	Protect Shareholders Right	28	23.33	III
d	Promote Transparent and Accountable Institutions	26	21.67	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.35
Major Challenge of Capital Market



The above table no. 4.27 and figure no. 4.35 provide the information about the challenge of capital market. Most of the people states enhance good governance which is 30.83% (37 respondents), 24.17% (29 respondent) state that macro-economic stability, 23.33% (28 respondents) state protect shareholders right and remaining 21.67% (26 respondents) state that promote transparent and accountable institutions. Enhance good governance, macro-economic stability, protect shareholders right and promote transparent and accountable institutions are 1st, 2nd, 3rd and 4th in rank respectively.

4.3.20 Solution of the Capital Market's Problem

“What would you think the best solution for the problem?” The question has been designed to find the solution of the problem of capital market. The details of the public opinions are as follows;

Table No: 4.28

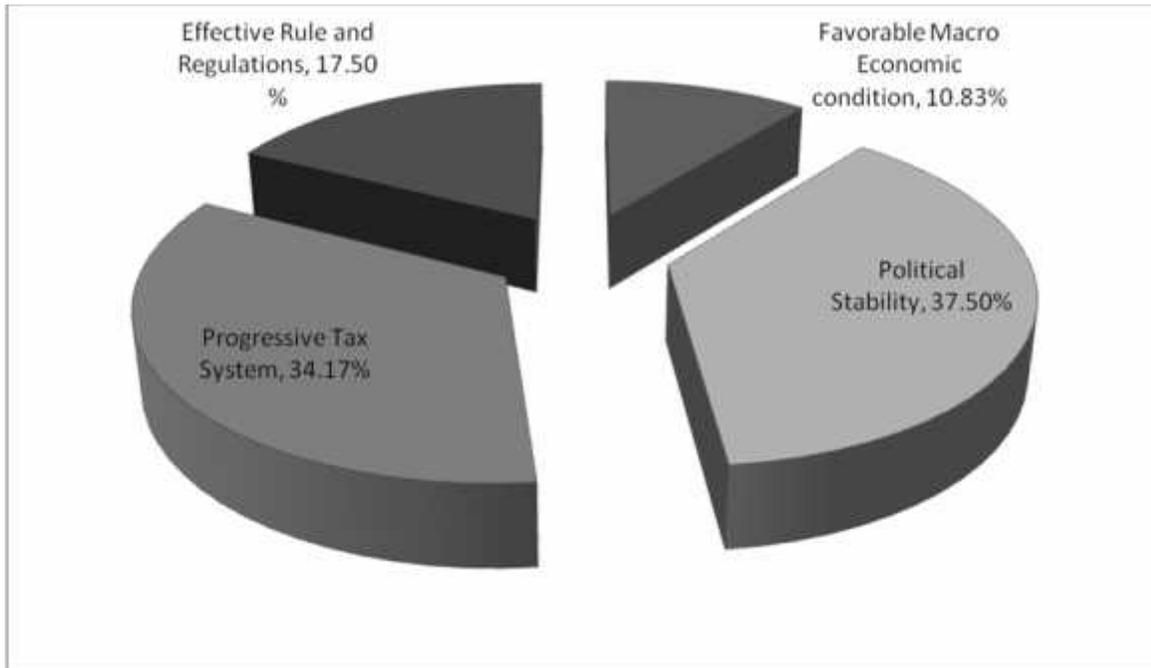
Solution of the IP Market's Problem

S.N.	Solutions	No. of Respondents	Response (%)	Rank
a	Political Stability	45	37.5	I
b	Progressive Tax System	41	34.17	II
c	Effective Rule and Regulations	21	17.5	III
d	Favorable Macro Economic Condition	13	10.83	IV
Total		120	100	

The above table can be presented as the following figure;

Figure No: 4.36

Solution of the Capital Market's Problem



The help of the above table no. 4.28 and figure no. 4.36, the solution of the primary market problem may be political stability which is in first rank with 37.5% (45 respondents). After that the solution may be offered progressive tax system that is 34.17% (41 respondents). In this way effective rule and regulations are offered by 21 people (17.5%). The last solution may be favorable macroeconomic condition which is 10.83% (13 people).

4.4 Major Findings of the Study

The study is used primary and secondary both data. Analyzing the data finds the following major things which are divided into two parts namely secondary findings and primary findings.

a) Major Findings from Secondary data Analysis

The major findings of this study by analyzing secondary data are as follows;

- J Trend of public offering is increasing as the amount of number of issue approved and capital realization has continuously increased from 9 (Rs. 493.4 million) in FY 2000/01 to 64 (Rs.16828.5 million) in FY 2008/09.
- J As IPOs four kinds of shares are issued, those are equity share, right share, pref. stock and debenture. Primary market is dominated by the right shares, among the 317 issues right share issue 172 times which is 54.26% of the total. Equity share stands for the second preferred with 128 times (40.38% of the total).
- J Investors highly interested to invest in IPO. Among 317 numbers of issues, 159 issues are oversubscribed which is 59.72%. Only 27 no. of issues (10.47%) under subscribed and remaining 131 no. of issued (24.25%) are constant.
- J Among the eight merchant bankers, NCML has managed 94 issues with amounting Rs. 11548.72million (29.64%). UFCL does not have managed any issue. AFCL takes 2nd position with 54 no. of issues amounting Rs. 9927.8 million which is 25.48%. Similarly NMBL has managed 46 no. of issues amounting Rs. 8114.93 million (20.82%).
- J Amount of annual turnover of the securities and the transaction amount of securities are increased continuously. There is amounting Rs. 2344.2 million (i.e. 3.03 %) in the FY 2000/01 and the end of FY 2008/09 amount of annual turnover of the securities are amounting Rs. 21681.2 million.
- J % turnover on market capitalization is fluctuated. It is increased and decreased randomly.
- J Market capitalization, % of market capitalization on GDP at nominal Price and securities transaction amount are increased. Thus the capital market can be said is increased rapidly.
- J At the end of the FY 2010 there are 171 listed companies in NEPSE for the secondary transaction. NEPSE Index is increased till FY 2007/08. After that falling down year by year.

- J SEBON categorized 9 sectors for the securities transaction. Among 171 listed companies, 62 are Finance Company which is 36.26% of the total. Transaction of securities and market capitalization of the securities is highest of Commercial Bank that is amounting Rs. 12406.45 million (57.22%) and 302219.29 million (58.12%) of the total respectively. Hydro Power is the latest introducing sector.

b) Major Findings from the Primary Data Analysis

- J Still 4.17% people unknown about the capital or primary market. Advertisement is the most important source of information for the public to capital market.
- J 41.67% people are interested to invest in IPO even with the loan as well.
- J Most of the public interested to invest in primary market rather than secondary market. They choose the equity share at first (74.17%) and debenture is the second prefer (17.5%).
- J 50% people are interested in companies' performance whereas 40% people are eager about market information. Most people are seen to invest in company if it's performing well.
- J Nepalese investors are risk averter so if they do not like to invest from credit. Only 25% people like to invest from the financial institution loan.
- J Investor response to the financial sector is higher than non financial sector. Among 120 respondents, 100 respondents in favor of financial sector that is 83.33%. Only 20 respondents (16.67%) in favor of non financial sector.
- J Most of investors (58.33%) expect annual return from the investment in IPO, 16.67% people wants to invest as they think it will be support for old –age and other.
- J Still most of the people (66.67%) lacks of information regarding stock so limited number of people are investing in primary market. 18.33 % do not invest as they lack of money.
- J Most of the people 83.33% prefer pro-rata basis for allotment not luck draw basis.

) Public think the major challenge of the capital market is enhancing good governance (30.53%). Also the people suggest to improve the primary market, political stability is needed (30.83%), after that there must be favorable macroeconomic condition (24.17%), and the confident investors (23.33%).

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

IPO is new shares offered to the general public in the primary market. The first time the company is traded on the stock exchange which avails fund to the small investors as well. It also facilitates the exchange of financial assets by bringing together buyers and sellers of securities.

IPOs follow the ten steps to reach the fully public. To fill the steps it bears different kinds of cost like legal fee auditing fee, underwriting fee and also time cost. In order to conclude the IPOs, process, there are more than 10 acts, securities allotment guidelines etc.

Many parties involve in the IPOs process such as issue managers, issuing company, bankers etc.

The study mainly focuses the process and practices of IPOs, trend of primary market and secondary market etc.

Even first public issue was in 1973 A.D. secondary market come into existence only in 1993, after the conversion of security exchange center in Nepal stock exchange limited with the enactment of securities act 2005, all companies going public must be registered at the SEBON before issuance of securities and must publish prospectus after getting SEBON' approval.

This study mainly base on primary and secondary data. For the purpose of this study the necessary secondary data were collected for the period of 2000/01 to 2009/10 from the annual report of SEBON, NEPSE, NRB and related companies, economy survey, news

papers, journals, newsletter, different websites and different books. These studies a diagram, pie chart, data table are used. The time series data are used to trace out the current situation of IPO. Among the seventeen merchant bankers, eight merchant bankers are taken as sample those have experience more than nine years.

For the primary data analysis to fulfill the objectives only 120 respondents are taken by random sampling method among businessman, bankers, students, brokers and general public around the Kathmandu valley.

5.2 Conclusion

Most of the companies' issues receive overwhelming demand from public which has led to oversubscriptions of their issues.

As far as instrument- wise issues offered during the study period is concerned, the number of issues offered and the amount of issue offered both indicates that right share is the most preferred instrument followed by common stock, debenture, and preference share respectively. Right share issues until 2009/10 from 200/01 is 172 (54.26%) out of 317 in no. issued. Similarly, amounting is Rs. 28302.25 million (66.44%). Rests are common stock, pref. stock and debenture.

Total amount of securities traded in the fiscal year 2007/08 is Rs 22820.8 million which is about to three times more than the amount of FY 2006/07 is Rs.8360.1. it indicates that the annual turnover is increasing highly.

The financial sector which comprises commercial banks, development banks, finance company and insurance company has dominated Nepalese IPO market as revealed by the number of issues offered during the study period.

Most people are in favor of regulation by NRB for funding via financial institutions as it lessens the equal chance of getting allotment. Most of the shares go in part of big investors. This kind of mismanagement in allotment discourages the investors. Contract

between the issue manager and the issuing company highly affects the whole IPO process, so make this as the people need, it should also be regulated. People are eager to know the promoter, company's performance before investment. IPO's handled by bigger brokerages are found to be more successful.

People are interested to invest in primary market rather than secondary market. They also choose equity share. They give the list prior to debenture and pref. share.

The major challenge of the capital market is political instability. Public seek the environment of political, while they are investing. They also seek the progressive tax system and effective rule and regulations for the regulating capital market.

Even though the whole IPO process is very long, Nepalese investors are interested to invest in this sector.

5.3 Recommendations

After the research following recommendations are made for betterment of IPO;

-) Absence of access to reliable advice and suggestion to investors on stock and market opportunities has increased risk on investment in stock market. There is a need to increase the confidence of public investors by making the stock market more efficient and competitive with inducting new brokers in the market.
-) Emphasis should be given to enhance the institutional capacity of security board of Nepal by upgrading physical facilities autonomy in financial matters, strengthening legal aspects, provision of adequate numbers of capable and technical human resources and improvement in internal governance system to enable the board to act as a competent regulator body for regulating the stock market.
-) The secondary market for the government development bond is not vibrant due to excessive (more than 99 percent) participation of organized institutions in the

primary issuance, and the ignorance of the general investors about issuance of development bonds, and lack of facilities available in the secondary market transactions. Hence, there is the necessity of generating interest of the general investors through the promotion of extension services like training and coaching for encouraging them to participate in the primary market and making them aware of risks and benefits of secondary market as well.

-) In the backdrop of the development of concept of international securitization and transaction in south Asia, a autonomous and competitive central depository system of stock is needed to make recently introduced electronic transaction system reliable, faster governance. Lack of access to knowledge and information related to stock market operation among small investors, and low capacity of regulator to monitor and supervise stock market operation are other shortcomings left in this area. These shortcomings related to capital market operation needs to be addressed in order develop stock market as one of the important capital mobilization tools.
-) Right share is found to be the most used financial instrument while other financial instruments like pref. share and debentures are rarely issued. The fact that such right share carry maximum risk to investors on one hand and also cause dilution of ownership to issuing company, seemed to be forgotten. In this regard, its recommended that root cause beneath should be traced and tackled for good.
-) As investment bankers play a vital role in the IPO process, they should try to give more transparent, fast , hassles free service so that more public involve in the IPO. Also the market intermediaries should be educated, as well as trained and professionalized.
-) Small investors are also the part of primary market, so IPO through financial institution should be strictly regulated to discourage the investors who apply in names of relatives, friends etc. It is found that most of the IPO's are concentrated

in the valley only. So Application forms each corner of the country should be asked to collect more and more interested applicants.

) Most of the underwriters target institutional or wealthy investors in IPO distribution, which is ethically as well as logically very wrong. The allotment process must be pro- rata basis rather than lucky draw, so that all investors may get shares.

) There is less supervision to merchant bankers, security act 2006 mandate to submit the annual report to SEBON. But limited merchant bankers submit their annual report. Hence it strongly recommended that supervision must be done and punished them who do not submit AGM (Annual General Meeting).

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APENDIX

QUESTIONNAIRE

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

Name:

Occupation:

Address:

1) Have you ever heard about IPO?

a) Never heard

c) A little

b) Seen in papers and books

d) Yes, of course

2) How do you come to know about IPO of any company?

a) Advertisements

c) Brokers

b) Personal relations

d) others

3) Would you like to invest in IPO?

a) No, risk at all

c) Depends on the sector

b) If had money

d) Yes, even with the loans

4) Which market would you prefer?

a) Primary

b) Secondary

5) Which instrument would you prefer to invest?

a) Equity

c) Pref. share

b) Debenture

6) What comes first in your mind while investing?

- a) Promoters
- b) Company's performance
- c) Brokerage Commission
- d) Market information

7) Which fund would you like to invest in IPO?

- a) Personal Fund
- b) Loan/Credit

8) Would you think which one is better for investing regulation Nepal Rastra Bank (NRB) or financial institutions loans?

- a) NRB
- b) Financial Institutions

9) How many company have you invested?

- a) One
- b) Two to three
- c) More than three
- d) none

10) What expectation led you to invest?

- a) Cash dividend
- b) Bonus share/ stock dividend
- c) Right share
- d) others (please specify if any)

11) Which sector would you prefer for investment?

- a) Financial
- b) Non financial

12) If you prefer to invest in financial sector than in what type?

- a) Commercial Bank
- b) Development Bank
- c) Financial Company
- d) Insurance Company

13) If you prefer to invest in non-financial sector than in what type?

- a) Manufacturing and Processing Company c) Trading Company
- b) Hotels d) Other Company (please specify if any).....

14) What purpose does led to invest in IPO & capital market?

- a) Support for old- age c) Annual Return
- b) Children education d) others (please specify if any).....

15) Which basis would you prefer for the distribution of shares?

- a) Pro-rata b)Lucky draw

16) Why most of the companies do not like going in public?

- a) To keep control in management c) Obligation to mass shareholders
- b) Sharing of Profit d) Complexity in management

17) Nepalese capital market is.....

- a) Steady c) Rapidly Growing
- b) Slowly Growing

18) What do you think about only limited numbers of people invest in the primary market?

- a) Lack of money c) Lack of information
- b) Lack of knowledge d) others (please specify if any).....

19) What is the major challenge of capital market?

- a) Macro-economic stability c) Promote transparent and accountable institutions
- b) Protect shareholders right d) Enhance good governance

20) What would you think the best solution for the capital market's problem?

- a) Favorable macro economic conditions
- b) Political stability
- c) Progressive tax system
- d) Effective Rule & regulations